B 4750-1

Irving Trust Company A Charter New York Bank
One Wall Street, New York, N.Y. 10015

Economic Research
& Planning Division

Financial Markets

Friday

October 5, 1979

Investors seem convinced that inflation and the weak dollar will lead the Federal Reserve and the administration to policies that will include higher interest rates. Despite the reports that Fed Chairman Volcker was returning to Washington ahead of schedule from the International Monetary Fund talks in Belgrade, rumors of a "dollar support package" in the making remained just rumors at week's end. Domestic monetary policy may have been tightened a notch, however, though Fed actions in the Federal funds market were less than conclusive.

The monetary authorities seemed to be signaling a slight increase in the Federal funds target--from 11 1/2% to 11 5/8%--when they provided reserves only grudgingly after letting funds trade at 11 3/4% for a while on Thursday. The reason for further restraint is not hard to find; the latest money supply increases confirm that monetary growth probably exceeded the Fed's short-run target limits again in September. But the value of a marginal 1/8% increase in the funds rates appears doubtful when the markets at home and abroad are awaiting forceful evidence of the credit authorities' anti-inflation resolve. It seems more likely that this week's Fed actions will lead the way toward still greater monetary restraint.

Producer prices rose at a 16.8% annual rate in September, the sharpest increase since 1974. The most rapid increase came in energy prices, but even excluding the surge in energy costs, prices were up at strong double-digit rates. The latest price news and September employment gains clearly reinforce prospects for positive third-quarter growth as well as for more near-term credit restraint from the Fed. Moreover, the worsening inflationary pressures now point to near double-digit inflation in 1980. As the minutes of the August Federal Open Market Committee noted, the projected economic slowdown is "small, and much smaller than that associated with the previous recession," a consideration that will affect the nature of Fed policy in 1980. In particular the Fed is not expected to push rates down aggressively next year, as they did in 1974-1975, when rates fell by 6% or 7%. Instead the policymakers are expected to permit money market rates to move down gradually by perhaps 3%-3 1/2% as credit demand weakens during the recession we expect in the first half of the year.

All in all, it was not the best of times to be selling bonds, and this week's heavy schedule of new offerings generated lackluster retail interest, and many yields reached new highs for the year. In the corporate market, two top quality issues found the going tough. A portion of the $170 million Pacific Northwest Bell issue remained unsold late in the week even though it carried a 10 1/8% coupon price to yield a record 10.2%. And the huge $1 billion IBM offering of notes and debentures (its first public debt offering) fared no better. The issues' scarcity appeal proved insufficient to overcome a rather thin yield premium over similar Treasury securities, and the bonds sold slowly. Two new government issues were also affected. A two-year note was auctioned on Tuesday with an average 10.21% yield, and a four-year note was auctioned Thursday with an average 9.79% yield; both were record highs. In the tax-free markets, prices have been falling recently after bucking the trend to higher rates over the past year or so, though this week's rise in yields was moderate in view of a rather sizable volume of new issue.

Glenn C. Picou

Money Market Rates

Irving Trust Company A Charter New York Bank

	10/5/79 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	13.50%	13.50%	9.75
Effective since	9/28/79		
Discount Rate at Federal Reserve Bank	11.00	11.00	8.00
Federal Funds	11.63	11.88	8.75
Repurchase Agreements	11.00	11.15	8.38
U.S. Treasury Issues - Yields			
Bills			
3 months	11.05	10.70	8.45
6 months	11.30	10.84	8.90
1 year	11.25	10.88	8.90
Coupons			
2 years	10.47	10.15	8.70
4 years	9.83	9.64	8.50
7 years	9.65	9.48	8.55
10 years	9.59	9.44	8.60
Long Bond	9.34	9.26	8.65
Negotiable Certificates of Deposit-Secondary Market			
1 month	12.35	11.80	8.83
3 months	12.55	12.00	9.20
6 months	12.80	12.25	9.53
1 year	12.60	11.75	9.83
Bankers' Acceptances			
1 month	12.00	11.90	8.76
3 months	12.35	12.20	8.98
6 months	12.75	12.40	9.08
Eurodollar Deposits			
1 month	12.56	12.25	9.13
2 months	12.94	12.50	9.44
3 months	13.25	12.75	9.69
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	11.00	11.00	8.25
1 month	11.65	11.38	8.60
3 months	11.00	11.00	8.60
Bank Holding Companies			
1 month	11.75	11.60	8.60
Dealer Placed:			
3 months	11.88	11.50	8.64
New Aa Corporate Utility Bond	10.40	10.25	9.20
Tax Exempt			
6 month Project Notes	5.25	5.30	4.20
12 month Project Notes	5.60	5.60	4.60
20 year AAA Bond	6.20	6.15	5.60

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Irving Trust Company A Charter New York Bank
One Wall Street, New York, N.Y. 10015

Economic Research
& Planning Division

Financial Markets

Friday October 12, 1979

Interest rates soared this week in reaction to the unexpectedly tough package of monetary policy actions announced by the Federal Reserve last weekend. The 1% increase in the discount rate to 12% was in line with most expectations. While some action in reserve requirements was anticipated, the hike was somewhat surprising, both in magnitude--an incremental 8% on liabilities above a specified base level--and in scope--on a wide group of purchased funds including for the first time Federal funds and repurchase agreements. But the most surprising aspect of the package and the one that caught everyone off guard was the radical shift in the operating tactics employed by the Fed to implement monetary policy. The Fed indicated that it was shifting the emphasis of day-to-day open market activity from the long-prevailing concern with stability of the Federal funds rate to control of reserve expansion.

Thus, the monetary authorities acknowledged the obvious: just how high short-term rates must go to curtail the rapid rate of money and credit expansion is unknown, even to the policymakers. Though short-term interest rates have risen by 300 basis points since the spring, growth in the major monetary and credit measures had accelerated to rates that violate the Fed's target limits for 1979. In this way monetary policy had really been accommodating the rapid growth in credit demand by pumping reserves into the banking system. One measure of reserve availability, for example, the monetary base, accelerated sharply since the spring and, in recent weeks, has been expanding at a 13% annual rate. The shift in operating procedures suggests the Fed will be concentrating more directly on getting reserves into acceptable growth ranges, though the measure of reserves, the growth range, and the operating techniques are so far unknown.

Uncertainty over gauging monetary policy actions in the future plus the likelihood of significantly higher rates left the markets in an obvious state of disarray, and rate movements were dramatic. The Federal funds rate, which ended last week trading in the 11 5/8%-3/4% range, fluctuated anywhere between 10% and 20% this week. Most short-term rates shot up by 1% or more, and banks raised the prime rate an entire percentage point to 14 1/2%. In the bond markets, while an aggressive policy of monetary restraint should improve the longer-run outlook for inflation and ultimately help reduce bond yields, the immediate effect was to further discourage investors from holding bonds, and prices fell abruptly by as much as three points in the taxable and tax-free markets; yields were up as much as 40 basis points. Once again the gloomy market environment led to new records in the government market. This week's 15-year bond offering was auctioned at an average yield of 10.17%, the highest ever on a long-term government bond.

In the foreign exchange markets, the initial reaction to the policy pronouncements was one of wait and see. For one thing there are no explicit dollar support provisions, though progress on cooling U.S. inflation is probably the most important prerequisite for a stronger dollar. More importantly, foreign investors remain skeptical about U.S. resolve in pursuing anti-inflationary policies at home. Failure by U.S. policymakers to follow through on the initiatives of November 1, 1978, and bring money and credit expansion under control is one reason the dollar remains vulnerable today. By week's end, the dollar had begun to strengthen a bit; but over the longer run, the dollar's performance will depend on the Fed's ability to stick with unpleasant policies until they show signs of working.

Glenn C. Picou

Money Market Rates

Irving Trust Company

A Charter New York Bank

	10/12/79 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	14.50%	13.50%	10.00%
Effective since	10/9/79		
Discount Rate at Federal Reserve Bank	12.00	11.00	8.00
Federal Funds	12.88	11.63	8.75
Repurchase Agreements	12.00	11.00	8.40
U.S. Treasury Issues - Yields			
Bills			
3 months	11.80	11.05	8.05
6 months	12.20	11.30	8.83
1 year	12.40	11.25	8.89
Coupons			
2 years	11.25	10.47	8.69
4 years	10.55	9.83	8.47
7 years	10.35	9.65	8.55
10 years	10.18	9.59	8.58
Long Bond	9.80	9.34	8.62
Negotiable Certificates of Deposit-Secondary Market			
1 month	13.50	12.35	8.85
3 months	13.70	12.55	9.22
6 months	13.90	12.80	9.57
1 year	13.25	12.60	9.58
Bankers' Acceptances			
1 month	13.50	12.00	8.88
3 months	13.90	12.35	9.00
6 months	14.30	12.75	9.20
Eurodollar Deposits			
1 month	14.63	12.56	9.25
2 months	14.81	12.94	9.44
3 months	15.00	13.25	9.81
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	12.75	11.00	8.00
1 month	13.00	11.65	8.80
3 months	12.50	11.00	8.88
Bank Holding Companies			
1 month	13.00	11.75	8.00
Dealer Placed:			
3 months	13.50	11.88	8.83
New Aa Corporate Utility Bond	11.15	10.40	9.25
Tax Exempt			
6 month Project Notes	5.90	5.25	4.20
12 month Project Notes	5.75	5.60	4.60
20 year AAA Bond	6.75	6.20	5.60

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Irving Trust Company A Charter New York Bank
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Economic Research
& Planning Division

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Financial Markets

Friday

October 19, 1979

The chaos that prevailed last week gave way to simple confusion this week, with the credit markets still pondering the implications of the Federal Reserve's recent policy measures. Over the longer run, the shift from Fed funds to reserves as the key monetary policy lever should improve monetary control and enhance the prospects for cooling down U.S. inflation, a potential plus for the bond markets. But it will take a while for the Fed to convince the markets of its intent to steadfastly pursue restraint, regardless of the approach.

And for now, the new tactics will mean higher and more volatile short-term financing costs. Moreover, with market participants still trying to figure out how the Fed will conduct its day-to-day operations under the new procedures, there was little retail or professional interest in holding bonds. Prices did stage a brief rally early in the week, as traders cashed in on existing short positions and pushed up prices. But market intervention by the Fed that signaled higher money market rates plus new evidence of a stronger than expected economy were enough to stall the advance, and prices ended the week off by a few more points. At the long end of the government market, the price drop pushed yields to 10% for the first time this year.

Credit tightening came on Thursday afternoon when the Fed sold Treasury bills outright. Until then, Federal funds had traded in the 13 1/4%-3/8% range, but following the reserve-absorbing move, funds ended up hovering around the 14% level. Under the Fed's new procedures it is not clear exactly what triggered the Fed's decision to tighten. But the money indicators continued to surge, and gains of $2.8 billion for M_1 and $4.5 billion for M_2 dampened market expectations (hopes?) of an October slowdown in monetary expansion. In addition, several of the major reserve indicators--total reserves, nonborrowed reserves, and the monetary base--have been expanding at very rapid rates over the past month, and bank borrowing at the discount window picked up substantially this past week. Whatever the immediate cause, it was evident that the Fed was willing to tolerate at least a 14% Federal funds rate.

The markets also interpreted the latest economic news as reason to expect further restraint. After dropping in August, industrial production rebounded at a 6.0% annual rate in September, and housing starts rose last month to almost 1.9 million starts at an annual rate. In the wake of these results and earlier reports of strengthening retail sales, it was not too surprising that real GNP, led by a revival in consumer spending, registered a 2.4% annual increase in the third quarter. The economic turnaround makes it clear that a recession, while on the way, has not yet arrived and gives the credit authorities still more time and justification for maintaining monetary restraint.

Glenn C. Picou

Money Market Rates

Irving Trust Company

A Charter New York Bank

	10/19/79 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	14.50%	14.50%	10.00%
Effective since	10/9/79		
Discount Rate at Federal Reserve Bank	12.00	12.00	8.50
Federal Funds	13.75	12.88	9.06
Repurchase Agreements	12.25	12.00	8.45
U.S. Treasury Issues - Yields			
Bills			
3 months	12.75	11.80	7.75
6 months	13.25	12.20	9.05
1 year	12.60	12.40	9.15
Coupons			
2 years	12.10	11.25	8.85
4 years	11.15	10.55	8.58
7 years	10.70	10.35	8.64
10 years	10.60	10.18	8.66
Long Bond	10.00	9.80	8.69
Negotiable Certificates of Deposit-Secondary Market			
1 month	13.75	13.50	9.00
3 months	14.15	13.70	9.60
6 months	14.50	13.90	10.00
1 year	13.75	13.25	10.00
Bankers' Acceptances			
1 month	13.75	13.50	9.15
3 months	14.50	13.90	9.50
6 months	14.80	14.30	9.60
Eurodollar Deposits			
1 month	14.00	14.63	9.25
2 months	14.63	14.81	9.69
3 months	14.88	15.00	10.25
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	12.00	12.75	8.55
1 month	13.25	13.00	8.90
3 months	12.75	12.50	9.00
Bank Holding Companies			
1 month	13.13	13.00	8.90
Dealer Placed:			
3 months	13.38	13.50	8.97
New Aa Corporate Utility Bond	11.25	11.15	9.25
Tax Exempt			
6 month Project Notes	5.90	5.90	4.20
12 Month Project Notes	5.75	5.75	4.60
20 year AAA Bond	6.95	6.75	5.80

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Economic Research
& Planning Division

Financial Markets

Friday

October 26, 1979

After falling sharply at first, bond prices began to firm up a little on Thursday, and the gains held up despite another bad inflation number; the September CPI was up at a 13.2% annual rate. The markets were bolstered by the closest thing to favorable news since October 6--a hint of slower money growth. But before that, bond yields had pushed to new highs in very wild trading, and the markets are still straining to cope with the uncertainties of monetary policy under the Federal Reserve's revamped procedures. In the government market, the Treasury found itself putting a 12 5/8% coupon on its latest two-year note offering, up 2 1/2 percentage points over the old record established just last month. And in the wake of recent heavy dealer losses, the very high cost of financing inventory, and substantial incentive to remain short, more records could be set next week at the Treasury's $6.75 billion quarterly financing, which will include a 3-1/2-year note, a 10-year note, and a 30-year bond.

The weekly money supply statistics showed a modest $700 million decline for M_1 and only a slight $500 million gain in M_2. Equally significant were the downward revisions in the week-earlier levels, $3 billion for M_1 and $2 billion for M_2. The money supply revisions, due to an unnamed bank's huge reporting error that went undetected by the Fed, pointed out again the hazards involved--for both the Fed and Fed watchers--in relying too heavily on weekly money supply as a guide to monetary policy. Still, while it is too soon for the Fed's October 6 policy actions to be having an impact, the revisions seemed to revive market hopes that the cumulative effect of escalating rates since the summer would begin to restrain monetary expansion.

In the money markets, Federal funds continued to trade in a wide 12%-20% range, averaging around 15%. Other short-term rates improved a bit. But the declines still left three-month CD rates near 14 1/2%, which, even without the marginal 8% reserve requirement imposed October 6, reflects a cost of funds of roughly 16%. Thus, even though the nation's major banks pushed the prime rate to 15%, it does appear that the industry is trying to cooperate with Fed Chairman Volcker, who is encouraging moderation in adjusting the prime to the volatile conditions in the short-term markets.

Curiously, one rate that hasn't been moving up is the discount rate, now at 12%. The gap between the Fed funds rate and the discount rate exceeds by a wide margin the 50-75 basis point spread that tends to encourage bank borrowing at the discount window; and this week's borrowings of $3.0 billion were the largest this year. While the Fed can clearly exercise nonprice control over member bank borrowings, the authorities' obvious reluctance to push the discount rate into line with other rates remains somewhat of a puzzle, particularly if borrowings are to play a pivotal role in the Fed's efforts to control reserves directly.

Glenn C. Picou

Money Market Rates

Irving Trust Company
A Charter New York Bank

	10/26/79 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	15.00%	14.50%	10.25%
Effective since	10/23/79		
Discount Rate at Federal Reserve Bank	12.00	12.00	8.50
Federal Funds	15.14	13.75	9.12
Repurchase Agreements	12.75	12.25	8.50
U.S. Treasury Issues - Yields			
Bills			
3 months	12.30	12.75	7.97
6 months	12.95	13.25	9.15
1 year	12.50	12.60	9.34
Coupons			
2 years	12.11	12.10	9.10
4 years	11.29	11.15	8.81
7 years	11.03	10.70	8.79
10 years	10.85	10.60	8.79
Long Bond	10.30	10.00	8.76
Negotiable Certificates of Deposit-Secondary Market			
1 month	14.25	13.75	9.15
3 months	14.50	14.15	9.90
6 months	14.50	14.50	10.37
1 year	14.25	13.75	10.20
Bankers' Acceptances			
1 month	14.05	13.75	9.20
3 months	14.40	14.50	9.65
6 months	14.70	14.80	9.90
Eurodollar Deposits			
1 month	15.31	14.00	9.63
2 months	15.50	14.63	10.06
3 months	15.75	14.88	10.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	12.00	12.00	8.00
1 month	13.90	13.25	8.95
3 months	12.88	12.75	9.00
Bank Holding Companies			
1 month	14.00	13.13	8.95
Dealer Placed:			
3 months	14.25	13.38	8.97
New Aa Corporate Utility Bond	11.75	11.25	9.35
Tax Exempt			
6 month Project Notes	6.30	5.90	4.80
12 month Project Notes	6.00	5.75	4.95
20 year AAA Bond	6.85	6.95	5.85

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Irving Trust Company A Charter New York Bank
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Economic Research
& Planning Division

Financial Markets

Friday

November 2, 1979

Market participants seemed to be resigning themselves to the current volatile price environment, in which wide one-day trading swings of a point or more have become commonplace. This week, the markets, though far from happy, appeared to be adjusting. The economic news held no surprises, and the Treasury's $6.75 billion quarterly financing did generate some retail interest--though it was mixed. Not surprisingly, the 3-1/2-year note issue got the most favorable reception from liquidity-conscious investors, who walked away from the auction with a record 11.64% average yield. The 10-year note and 30-year bond were less warmly received, though they too carried record yields of 10.75% and 10.44%, respectively.

The latest inflation news was about as expected. The October producer price index was up at a 12% annual rate, a relief from the 16.8% registered in September. But it virtually assures a 12.5% pace for all of 1979. A 0.8% increase in the September index of leading indicators might ordinarily have discouraged bond market participants who are looking for some clear evidence of an economic downturn as the remedy for stubborn double-digit inflation. Nor did the labor market results for October--a small decline in employment that pushed the unemployment rate up to 6.0%--signal any significant softening in business activity. But it is probably too soon for the data to reflect the effects of the Federal Reserve's October 6 shift toward a more aggressive monetary policy stance. While the sharp escalation in rates since early October has clearly had an unsettling near-term influence on the markets, it does hold out the prospect that credit policy will eventually bring money and credit under control, point the way to moderating inflation, and permit the long-awaited turnaround in interest rates.

The Federal Reserve's monetary statistics brought more evidence of monetary weakening in October. Declines of $1.3 billion and $1.2 billion in M_1 and M_2 respectively were reported for the week of October 24; these were in addition to further downward adjustments in the figures for the prior three weeks. It now appears that October growth for M_1 will be about 4%, the slowest since May. And though the Federal Reserve this week injected reserves into the banking system for what appeared to be technical reasons, it remains to be seen whether stability will mark near-term monetary policy. The Fed has indicated it will concentrate on reserve expansion as its policy trigger; and so far, reserve growth is still going strong.

For example, the monetary base, as constructed by the Federal Reserve Board, was up by $1.4 billion last week and, over the past four weeks, has increased at close to a 13% annual rate, up from the roughly 11% of the prior three months. (The acceleration in the base mirrors a similar acceleration in total reserves over the same period.) If the Fed is tracking reserves, the recent behavior of these measures at least suggests that there is still room for further monetary tightening.

Glenn C. Picou

Money Market Rates

Irving Trust Company
A Charter New York Bank

	11/2/79 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	15.25%	15.00%	10.50%
Effective since	11/1/79		
Discount Rate at Federal Reserve Bank	12.00	12.00	9.50
Federal Funds	14.88	15.14	9.94
Repurchase Agreements	12.00	12.75	8.88
U.S. Treasury Issues - Yields			
Bills			
3 months	12.50	12.30	8.95
6 months	13.03	12.95	9.95
1 year	12.90	12.50	10.00
Coupons			
2 years	12.10	12.11	9.50
4 years	11.45	11.29	9.00
7 years	10.90	11.03	8.78
10 years	10.80	10.85	8.86
Long Bond	10.40	10.30	8.75
Negotiable Certificates of Deposit-Secondary Market			
1 month	14.35	14.25	9.80
3 months	14.60	14.50	10.80
6 months	14.65	14.50	11.05
1 year	14.30	14.25	11.25
Bankers' Acceptances			
1 month	14.25	14.05	10.00
3 months	14.70	14.40	10.50
6 months	14.80	14.70	10.75
Eurodollar Deposits			
1 month	15.00	15.31	10.31
2 months	15.63	15.50	11.19
3 months	15.63	15.75	11.38
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	13.50	12.00	9.13
1 month	14.13	13.90	9.50
3 months	12.88	12.88	9.63
Bank Holding Companies			
1 month	14.25	14.00	9.50
Dealer Placed:			
3 months	14.40	14.25	10.13
New Aa Corporate Utility Bond	11.45	11.75	9.35
Tax Exempt			
6 month Project Notes	6.30	6.30	5.00
12 month Project Notes	6.50	6.00	5.15
20 year AAA Bond	6.70	6.85	5.75

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Economic Research
& Planning Division

Financial Markets

Friday November 9, 1979

Once again the credit markets were marked by large price movements as they first reacted adversely to the political crisis in Iran, then strengthened dramatically in response to heightened expectations of economic and monetary slowdown. Activity was relatively uneventful in light trading through the Election Day holiday on Tuesday; but on Wednesday, prices fell sharply, as the markets assessed the inflationary potential of a severe cutback in Iranian petroleum exports. In the government market, where dealers were still in the process of distributing last week's Treasury financing, bond prices fell a point or more to new lows that left the new 10 3/8's of 2009 yielding about 10.55%. Market sentiment reversed sharply on Thursday owing to unexpectedly weak money supply numbers that confirmed slower money growth in October. And with news of further layoffs in the auto industry adding to the mounting evidence of economic softening, bond prices rebounded rapidly, posting gains of 1 to 1 1/2 points.

Short-term rates moved down too, with an assist from subsiding technical pressures in the Federal funds market that permitted funds to trade down to around 13 1/2% from the 15% level of the past few weeks, though not before another record was set at this week's auction of one-year bills, which brought a rate of 11.81%, up from 11.51% in October. Three-month CD rates eased down to 14.35%. The recent figures on the Fed's new 8% marginal reserve requirements indicate that banks are raising a significant volume of funds subject to the higher reserves, with an incremental cost of funds of close to 17%. This suggests continued upward pressure on the prime rate, which is now 15 1/2% at several banks.

The behavior of reserves during the first month under the Federal Reserve's new operating procedures highlights the difficult job the Fed still faces in slowing money and credit growth. Despite a Federal funds rate that is at least 2% higher than it was in late September, one measure of reserve availability, the monetary base, has so far shown only a marginal slowdown from the rapid expansion that developed over the summer. The base was up at a 13 1/2% annual rate in October, only slightly below a 14 1/2% rate in September.

In all likelihood, the credit authorities have been trying to provide for an orderly transition to a new operating environment under the revised policy procedures, particularly since an additional $355 million in marginal reserve requirements had to be met last week. But they may have overdone it. During the last week of October, the authorities provided more than enough in the way of nonborrowed reserves to accommodate the increased reserve requirements. For now, it is too soon to evaluate the effectiveness of the Fed's shift in operating tactics toward direct control of reserves.

Glenn C. Picou

Money Market Rates

Irving Trust Company A Charter New York Bank

	11/9/79 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	15.50%	15.25%	10.75%
Effective since	11/9/79		
Discount Rate at Federal Reserve Bank	12.00	12.00	9.50
Federal Funds	13.75	14.88	9.69
Repurchase Agreements	12.25	12.00	9.50
U.S. Treasury Issues - Yields			
Bills			
3 months	12.50	12.50	9.00
6 months	13.00	13.03	10.00
1 year	12.50	12.90	10.20
Coupons			
2 years	11.89	12.10	9.42
4 years	11.18	11.45	8.90
7 years	11.05	10.90	8.84
10 years	10.75	10.80	8.85
Long Bond	10.30	10.40	8.81
Negotiable Certificates of Deposit-Secondary Market			
1 month	14.20	14.35	10.00
3 months	14.35	14.60	10.80
6 months	14.40	14.65	11.25
1 year	13.70	14.30	11.25
Bankers' Acceptances			
1 month	14.00	14.25	10.00
3 months	14.50	14.70	10.65
6 months	14.50	14.80	10.75
Eurodollar Deposits			
1 month	14.75	15.00	10.44
2 months	15.56	15.63	11.44
3 months	15.63	15.63	11.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.00	13.50	9.55
1 month	14.00	14.13	9.95
3 months	12.88	12.88	9.90
Bank Holding Companies			
1 month	13.90	14.25	9.95
Dealer Placed:			
3 months	14.25	14.40	10.30
New Aa Corporate Utility Bond	11.75	11.45	9.30
Tax Exempt			
6 month Project Notes	6.25	6.30	5.00
12 month Project Notes	6.50	6.50	5.10
20 year AAA Bond	6.75	6.70	5.70

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Irving Trust Company A Charter New York Bank

One Wall Street, New York, N.Y. 10015

Economic Research
& Planning Division

Financial Markets

Friday

November 16, 1979

The bond market rally that began late last week was short-lived. Corporate bond prices did push up strongly on Monday, but trading was light, and the government market was essentially closed down by bank observance of the Veterans Day holiday. On Tuesday, prices began to slide and continued soft through most of the week. Renewed talk of an imminent peak in interest rates is beginning to tempt retail buyers back into the market, though they remain for the most part reluctant customers who can be coaxed into buying by only the most attractive of yields. This was evident from the results of Pacific Telephone's offering of A-rated bonds; though priced to provide a much more generous yield than expected, 12.7%, investor interest was subdued.

The markets did get a little boost from additional evidence of an impending economic downturn that should bring about a turnaround in interest rates. Weak auto output contributed to a nominal increase in October industrial production; and disastrous auto sales in early November suggest even weaker production this month. But the overall sense of economic and political uncertainty arising from the Iranian crisis dominated the markets. Iranian attempts to withdraw U.S. dollar deposits, the U.S. freeze of official Iranian assets, and rumors that Iran might require nondollar petroleum payments were enough to subdue the otherwise improving market sentiment.

Moreover, before any rate turnaround, monetary and credit expansion will have to show signs of moderation, and the weekly money statistics for the first week of November--M_1 up \$3 billion and M_2 up \$4.4 billion--emphasized that it would be premature to view October's monetary slowdown as evidence of improving monetary control. More importantly, as Federal Reserve Chairman Volcker has repeatedly pointed out, the course of interest rates will be significantly determined by progress on inflation, and better near-term price performance appears unlikely, with consumer price gains exceeding a 12% annual rate for the final quarter of the year. As a result, rates may move even higher by early 1980, before beginning to turn down in the spring.

In the money market, rates moved somewhat lower in most sectors. The declines can be traced to the lower Fed funds trading range of the past few weeks, since short-term credit demand continues generally strong. Commercial paper borrowings by nonfinancial firms rose \$0.8 billion. Commercial banks continued to raise new money in the CD market, where outstandings of New York banks were up \$150 million. And judging from the Fed's weekly report of marginal required reserves against managed liabilities--mainly CDs, Federal funds, Repurchase Agreements and Eurodollars--use of such funds has increased by about \$10 billion since the end of September, no doubt a consideration as many banks raised their prime rate to 15 3/4%. Business loans did drop in New York, however, and there are signs that the rate of bank credit demand may be slowing from the rapid 25% annual pace that had persisted through the first three quarters of the year.

Glenn C. Picou

Money Market Rates

Irving Trust Company

A Charter New York Bank

	11/16/79 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	15.75%	15.50%	11.00%
Effective since	11/16/79		
Discount Rate at Federal Reserve Bank	12.00	12.00	9.50
Federal Funds	13.38	13.75	9.63
Repurchase Agreements	12.50	12.25	9.50
U.S. Treasury Issues - Yields			
Bills			
3 months	12.30	12.50	8.25
6 months	12.90	13.00	9.50
1 year	12.35	12.50	9.75
Coupons			
2 years	11.80	11.89	9.20
4 years	11.12	11.18	8.80
7 years	10.90	11.05	8.68
10 years	10.75	10.75	8.70
Long Bond	10.40	10.30	8.68
Negotiable Certificates of Deposit-Secondary Market			
1 month	13.90	14.20	9.90
3 months	14.10	14.35	10.55
6 months	14.15	14.40	11.00
1 year	13.60	13.70	10.90
Bankers' Acceptances			
1 month	13.90	14.00	10.08
3 months	14.20	14.50	10.68
6 months	14.25	14.50	11.19
Eurodollar Deposits			
1 month	14.50	14.75	10.13
2 months	15.38	15.56	11.19
3 months	15.38	15.63	11.44
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.00	10.00	9.00
1 month	13.50	14.00	10.00
3 months	12.75	12.88	10.05
Bank Holding Companies			
1 month	13.30	13.90	10.00
Dealer Placed:			
3 months	13.63	14.25	10.30
New Aa Corporate Utility Bond	11.75	11.75	9.25
Tax Exempt			
6 month Project Notes	6.40	6.25	5.05
12 month Project Notes	6.60	6.50	5.15
20 year AAA Bond	6.80	6.75	5.60

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Irving Trust Company A Charter New York Bank

One Wall Street, New York, N.Y. 10015

Economic Research
& Planning Division

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Financial Markets

Friday

November 23, 1979

Conditions abroad--the deteriorating political confrontation between the U.S. and Iran and the attack on the American Embassy in Pakistan--contributed to growing investor uncertainty this week. Mounting uneasiness pushed the dollar lower and spilled over into the domestic bond markets as well. At home, market participants looking for evidence of economic softness as a forerunner of slower inflation and declining interest rates continued to get mixed signals.

GNP statistics for the third quarter showed that consumer spending and capital investment--particularly in equipment--provided more of a boost to the economy than originally reported. As a result, real GNP was up at a 3.5% annual rate, compared to the prior 2.4% estimate. Of greater significance, perhaps, was the surprisingly strong 6.5% gain in real final sales and its implications for inventory accumulation. The reported drop in October durable goods orders does indicate that firms are now seeking to trim their inventories. But the strong sales figures suggest that much of the third-quarter slowdown in inventory accumulation may have been unintentional, and that the process of planned stock liquidation is still in its early stages.

The sharp rise in mortgage rates that has occurred since the October 6 Federal Reserve actions and the rapid erosion in thrift deposits--savings bank deposits were down a record $1.4 billion in October--all point to a substantial weakening in residential construction over the months ahead. But so far, the widely expected weakening in housing has yet to develop. Though housing starts were off 8.0% in October, the 1.76 million annual start rate was still in the 1.7-1.9 million range that has held up since the spring.

And so, as has been the case throughout the year, the economic data still fail to provide unambiguous evidence of a recessionary slide. The Federal Open Market Committee undoubtedly took note of that fact at Tuesday's meeting. It is reasonable to assume that the FOMC's October 6 policy actions will soon begin to dampen activity, particularly in construction. But despite the intensifying political opposition to current rate levels, and despite apparent slowing in money and credit growth, the FOMC likely decided to maintain a stable posture on monetary policy. Details are still lacking on just how policy is being formulated in the post-October 6 environment. But until there is convincing evidence that money and credit growth is shifting into low gear and that the economy is declining--evidence we don't expect until early next year--the FOMC is unlikely to seek lower rates.

In the credit markets, trading activity was generally light for the third holiday-shortened week in a row. Bond prices tended lower early in the week in response to the GNP news and Iranian developments. Prices then pushed back up on Wednesday, when the Fed refrained from withdrawing reserves until the Federal funds rate drifted down to 12%, a full percent below previous intervention points. There was more of the same on Friday, and market participants took the opportunity to push prices sharply higher as the week came to a close. Before the market rebounded, however, yields had been flirting with their highs for the year. In the corporate sector, for example, the week's major offering, a Public Service Electric and Gas issue of AA-rated bonds, set a record for the year when it was priced to yield 12%.

Glenn C. Picou

Money Market Rates

Irving Trust Company

A Charter New York Bank

	11/23/79 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	15.75%	15.75%	11.50%
Effective since	11/16/79		
Discount Rate at Federal Reserve Bank	12.00	12.00	9.50
Federal Funds	12.38	13.38	9.75
Repurchase Agreements	12.00	12.50	9.45
U.S. Treasury Issues - Yields			
Bills			
3 months	11.85	12.30	9.10
6 months	12.40	12.90	9.79
1 year	12.10	12.35	10.05
Coupons			
2 years	11.82	11.80	9.48
4 years	11.05	11.12	8.92
7 years	10.65	10.90	8.80
10 years	10.53	10.75	8.79
Long Bond	10.24	10.40	8.76
Negotiable Certificates of Deposit-Secondary Market			
1 month	13.30	13.90	10.00
3 months	13.55	14.10	10.60
6 months	13.55	14.15	11.05
1 year	13.25	13.60	11.00
Bankers' Acceptances			
1 month	13.30	13.90	10.08
3 months	13.60	14.20	10.62
6 months	13.70	14.25	11.14
Eurodollar Deposits			
1 month	13.63	14.50	10.19
2 months	14.63	15.38	11.25
3 months	14.63	15.38	11.63
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.00	10.00	6.00
1 month	13.00	13.50	9.75
3 months	12.63	12.75	9.90
Bank Holding Companies			
1 month	13.13	13.30	9.80
Dealer Placed:			
3 months	13.38	13.63	10.15
New Aa Corporate Utility Bond	11.75	11.75	9.35
Tax Exempt			
6 month Project Notes	6.40	6.40	5.20
12 month Project Notes	6.50	6.60	5.30
20 year AAA Bond	7.00	6.80	5.50

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Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

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Friday

November 30, 1979

The credit markets rallied through most of the week, initially in response to Monday's decision by one New York bank to drop its prime rate 1/4% to 15 1/2%. Over the course of the week, this move was followed by most other major banks, one of which moved to a 15 1/4% prime. But the main driving force behind the rally was the easier tone in the money markets, and the resulting decline in Federal funds, that many market participants were interpreting as a sign of a more accommodating policy on the part of the Federal Reserve. With the stalemate over the Iranian hostage situation assuming a neutral near-term bearing on the market, prices pushed up by 1-1 1/2 points or more in the bond markets, and money market rates dropped as much as 75-110 basis points for the week.

The reported 1% increase in October consumer prices squared with most estimates and had no noticeable effect on the domestic markets. However, the behavior of inflation cannot be ignored in assessing the near-term interest rate outlook. The Fed's Chairman, Paul Volcker, has conditioned credit easing on progress in the inflation fight. Moreover, the still shaky dollar remains a further constraint on policy options. Indeed foreign market analysts were somewhat perplexed that U.S. rates were dropping even as the 12% annual rate of CPI increase was reported, one reason the dollar weakened considerably despite the news that strong exports had helped narrow the U.S. trade deficit in October. Until inflation cools visibly, foreign investors can be expected to view unfavorably any suggestion that the credit authorities are pushing interest rates down, particularly as rates abroad are being pushed still higher.

More important to the immediate rate outlook is the significance of recent Fed actions in the Federal funds market. After trading as high as 15 1/2% immediately after the October 6 monetary policy actions, funds moved down to as low as 13% before the Fed absorbed reserves from the banking system. After the November 20 meeting of the Federal Open Market Committee, reserve draining actions came as funds traded at 12%. But at the October 6 FOMC meeting, the committee adopted a Fed funds tolerance range of 11 1/2% to 15 1/2%, aware that its new reserve-oriented operating approach would require "...much greater fluctuations in the federal funds rate than heretofore." Moreover, at a subsequent special October 22 meeting, the FOMC considered an increase in the upper limit of the funds target in response to excessive growth in total reserves. With reserve growth so far showing little sign of slowing down, it is unlikely that the FOMC would have voted at last week's meeting either to lower its funds tolerance range or raise its reserve growth targets. Thus, in the new policy environment, the recent fluctuations in Federal funds don't carry the same implications as in the past and don't necessarily indicate a shift toward easier policy.

Glenn C. Picou

Irving Trust

Money Market Rates

	11/30/79 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	15.50%	15.75%	11.50%
Effective since	11/30/79		
Discount Rate at Federal Reserve Bank	12.00	12.00	9.50
Federal Funds	12.46	12.38	9.85
Repurchase Agreements	11.50	12.00	9.60
U.S. Treasury Issues - Yields			
Bills			
3 months	11.89	11.85	9.20
6 months	12.26	12.40	9.75
1 year	11.91	12.10	10.04
Coupons			
2 years	11.34	11.82	9.45
4 years	10.50	11.05	8.96
7 years	10.45	10.65	8.84
10 years	10.36	10.53	8.80
Long Bond	10.08	10.24	8.72
Negotiable Certificates of Deposit-Secondary Market			
1 month	12.90	13.30	9.95
3 months	13.10	13.55	10.70
6 months	13.25	13.55	11.25
1 year	12.40	13.25	11.00
Bankers' Acceptances			
1 month	12.90	13.30	10.00
3 months	13.25	13.60	10.40
6 months	13.30	13.70	10.60
Eurodollar Deposits			
1 month	13.63	13.63	11.00
2 months	14.13	14.63	11.13
3 months	14.38	14.63	11.50
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.13	8.00	9.01
1 month	12.00	13.00	9.96
3 months	11.75	12.63	10.12
Bank Holding Companies			
1 month	11.75	13.13	9.96
Dealer Placed:			
3 months	12.50	13.38	10.52
New Aa Corporate Utility Bond	11.75	11.75	9.25
Tax Exempt			
6 month Project Notes	6.15	6.40	5.20
12 month Project Notes	6.40	6.50	5.45
20 year AAA Bond	6.60	7.00	5.60

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Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research & Planning Division

Friday

Dec. 7, 1979

After slumping on Monday, and then again following Friday's surprising news of an unexpected drop in the November unemployment rate to 5.8%, the credit markets still managed to gain ground this week. Uncertainty over Iran remains, of course, but despite the signs of mounting political and economic instability in Iran, there were hints that international diplomatic efforts to free the hostages might eventually bear fruit. And for now, market attention has shifted back to the domestic economic picture. For the most part, economic developments are becoming increasingly favorable for the interest rate outlook over the longer term, even if the near-term direction of rates--and the question of whether or not they have already peaked--is still open to question. The longer-run prospects seemed to prevail and gave the markets a bit of a lift. As a result, the Treasury's 10 3/8% bonds pushed briefly through the 104 price level, the highest since October 6, and ended the week with a yield of 10.03%.

The improvement in bond prices occurred despite the further increase in the producer price index, which, led by resurging food prices, jumped at a 15.6% annual rate in November. The markets chose to focus on the prospective easing in inflationary pressures, with an expected slump in business in the first half of 1980. But until then, inflation--and its potentially negative impact on the dollar--can reasonably be expected to limit the prospects for an imminent credit easing by the Federal Reserve, and to moderate the extent of easing when it does occur. At the same time, however, there is a growing sentiment that further overt tightening is not likely. And so while bond prices may not move up significantly any time soon, many investors see diminishing risk of further downside price movements and are beginning to scale into the markets.

Continuing weakness in the monetary aggregates, with sizable declines reported for both money measures, also added to the favorable market tone. M_1 is now running below the 4 1/2% target path established by the Federal Open Market Committee at its October 6 meeting, and M_2 is running roughly on track with its 7 1/2% target path. Slower monetary expansion, if it continues, should eventually ease growth in required reserves and, under a reserve-targeting policy approach, contribute to easier conditions in the money markets.

The markets chose to discount for now the large increase in business loans at New York banks. Loans have been seasonally weak in recent weeks, contributing to speculation that the softening economy is beginning to dampen credit demand. But as past recessions have shown, loans tend to be a lagging indicator, turning down well after the peak in business activity. Thus, it is possible there is still life left in bank credit demand, and that loans will pick up for a while before turning down again in early 1980.

Glenn C. Picou

Irving Trust

Money Market Rates

	12/7/79 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	15.25%	15.50%	11.50%
Effective since	12/7/79		
Discount Rate at Federal Reserve Bank	12.00	12.00	9.50
Federal Funds	13.63	12.46	9.87
Repurchase Agreements	12.50	11.50	9.55
U.S. Treasury Issues - Yields			
Bills			
3 months	12.30	11.89	9.20
6 months	12.50	12.26	9.85
1 year	11.90	11.91	10.12
Coupons			
2 years	11.18	11.34	9.50
4 years	10.35	10.50	9.02
7 years	10.30	10.45	8.88
10 years	10.24	10.36	8.86
Long Bond	10.00	10.08	8.79
Negotiable Certificates of Deposit-Secondary Market			
1 month	13.00	12.90	10.15
3 months	13.10	13.10	10.60
6 months	13.10	13.25	11.07
1 year	12.45	12.40	10.88
Bankers' Acceptances			
1 month	13.05	12.90	10.13
3 months	12.85	13.25	10.53
6 months	13.10	13.30	11.08
Eurodollar Deposits			
1 month	13.75	13.63	10.88
2 months	13.88	14.13	11.25
3 months	14.00	14.38	11.56
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	13.00	10.13	9.01
1 month	13.00	12.00	10.08
3 months	11.50	11.75	10.12
Bank Holding Companies			
1 month	13.00	11.75	10.08
Dealer Placed:			
3 months	13.00	12.50	10.52
New Aa Corporate Utility Bond	11.50	11.75	9.35
Tax Exempt			
6 month Project Notes	6.15	6.15	5.25
12 month Project Notes	N/A	6.40	5.40
20 year AAA Bond	6.70	6.60	5.80

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DEC 21 1979

Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday Dec. 14, 1979

The money markets are still having trouble adapting to life under the Federal Reserve's present operating tactics. On Wednesday, Federal funds were trading near 13 1/2% when the Fed entered the market to drain reserves through reverse repurchase agreements. As a result, there was once again talk of possible tightening by the Federal Reserve, despite the fact that Fed funds have consistently traded within the 11 1/2%-15 1/2% range adopted by the Federal Reserve on October 6. The possibility of further tightening and statistics that still don't reflect a clear-cut economic downturn were enough to push money market rates sharply higher. Three-month CD rates soared up to over 14% from around 13% last week, with most other short-term rates following suit. Then, the market stabilized on Thursday, as the authorities turned around and added reserves to the system as funds traded near 14 5/8%. Further improvement followed publication of the monetary statistics showing moderate money gains and a drop in New York bank loans.

Widespread expectations that rates have peaked--expectations that dimmed noticeably this week--have been based in large measure on the assumption that economic activity is now declining. But the latest business reports suggest otherwise. Employment as measured by the payroll survey was up 380,000 over October and November. And November's retail sales in the preliminary estimate offset October's decline. If retail sales in December just stay at November's level, the fourth quarter will be up over the third at a 10% annual rate, which should be enough to keep the economy drifting sideways. Also, October's inventory figures indicate that inventory accumulation is rising from the third-quarter pace. If that is the case, and we think it is, the economy should register modest growth in the final quarter of the year.

The prospect for continued--if modest--business expansion in the current quarter has obvious monetary policy implications. At the special October 6 Federal Open Market Committee meeting, the credit authorities felt it was necessary to go ahead with the surprising shift in policy even though the FOMC's forecast indicated that "...a decline in activity in the fourth quarter still [appears] probable." If, as seems likely, the Fed policymakers are pushing the start of the anticipated downturn into 1980, the argument for an imminent easing in monetary policy has been dulled. Perhaps by canceling its regularly scheduled December meeting, the FOMC is indirectly signaling that for now it will simply maintain the status quo and wait for the actual numbers to tell the final story in 1979.

Glenn C. Picou

Irving Trust

Money Market Rates

	12-14-79 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	15.25%	15.25%	11.50%
Effective since	12-7-79		
Discount Rate at Federal Reserve Bank	12.00	12.00	9.50
Federal Funds	14.25	13.63	9.88
Repurchase Agreements	13.65	12.50	9.55
U.S. Treasury Issues - Yields			
Bills			
3 months	12.76	12.30	9.30
6 months	12.95	12.50	9.88
1 year	12.00	11.90	10.15
Coupons			
2 years	11.88	11.18	9.60
4 years	10.86	10.35	9.18
7 years	10.40	10.30	9.01
10 years	10.38	10.24	8.99
Long Bond	10.14	10.00	8.89
Negotiable Certificates of Deposit-Secondary Market			
1 month	14.00	13.00	10.10
3 months	13.95	13.10	10.50
6 months	13.85	13.10	11.00
1 year	12.50	12.45	10.50
Bankers' Acceptances			
1 month	14.00	13.05	10.14
3 months	14.15	12.85	10.57
6 months	14.05	13.10	11.08
Eurodollar Deposits			
1 month	14.50	13.75	10.75
2 months	14.81	13.88	11.00
3 months	14.81	14.00	11.38
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	13.25	13.00	9.25
1 month	13.63	13.00	10.13
3 months	12.00	11.50	9.88
Bank Holding Companies			
1 month	13.75	13.00	10.13
Dealer Placed:			
3 months	13.75	13.00	10.38
New Aa Corporate Utility Bond	11.85	11.50	9.35
Tax Exempt			
6 month Project Notes	6.05	6.15	5.40
12 month Project Notes	N/A	N/A	5.50
20 year AAA Bond	6.70	6.70	6.00

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Financial Markets

Irving Trust

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One Wall Street
New York, NY 10015

Economic Research &
Planning Division

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DEC 31 1979

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Dec. 21, 1979

The bond markets remained on a firm footing, and prices drifted up over most of the week. Trading was generally light as market activity wound down in anticipation of the holiday season and year-end. However, significant retail interest did emerge at Wednesday's $3.5 billion auction of two-year Treasury notes. The yield, 11.43%, was in line with most expectations; but the volume of bids--$8.2 billion--was unusually heavy and suggested some improvement in market sentiment.

Despite the diversity of market opinion over whether the economy is or is not now in a recession, and whether interest rates have or have not peaked, there is a widening consensus that within the next few months interest rates will probably be below current levels and falling. As a result, some of those investors who have steadfastly chosen to remain short and liquid—and take advantage of very generous money market rates--may now be willing to give up current income and step out a little further on the yield curve, but not too far. The Treasury's $2.5 billion four-year note auction attracted only modest interest and produced a somewhat higher than expected yield of 10.52%.

Contributing to the markets' positive tone was the convincing evidence that higher interest rates are beginning to affect activity in the housing industry, which has tended to be the cutting edge of credit policy. New starts were down 14% in November, to a 1.5 million unit annual rate, the weakest since the weather-depressed pace of February. Actually, the Federal Reserve's October credit tightening had an immediate impact; mortgage commitments at the nation's S&L's dropped sharply in October and were down about 2 1/2% from year-earlier levels, the largest shortfall since the winter months. Since then, the cost of new money, which now flows almost entirely through the issuance of six-month money market certificates bearing high market rates of interest, has averaged close to 12%. The high cost of funds, in combination with usury ceilings in many states, has in all likelihood led to an even more substantial curtailment in mortgage commitments in November and December. On Wednesday, however, Congress acted to suspend all states' mortgage usury ceilings until March 31. President Carter is expected to sign the legislation soon. This action will tend to support the housing market although the current high interest rate structure will still put a damper on housing starts.

Financial Markets will not be published next week.

SEASON'S GREETINGS TO ALL OUR READERS!

Glenn C. Picou

Irving Trust

Money Market Rates

	12/21/79 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	15.25%	15.25%	11.50%
Effective since	12/7/79		
Discount Rate at Federal Reserve Bank	12.00	12.00	9.50
Federal Funds	13.88	14.25	10.00
Repurchase Agreements	12.63	13.65	9.70
U.S. Treasury Issues - Yields			
Bills			
3 months	12.65	12.76	9.60
6 months	12.66	12.95	10.15
1 year	11.88	12.00	10.45
Coupons			
2 years	11.38	11.88	9.95
4 years	10.54	10.86	9.45
7 years	10.36	10.40	9.25
10 years	10.42	10.38	9.15
Long Bond	10.16	10.14	8.95
Negotiable Certificates of Deposit-Secondary Market			
1 month	13.30	14.00	10.45
3 months	13.40	13.95	11.05
6 months	13.50	13.85	11.60
1 year	12.50	12.50	11.40
Bankers' Acceptances			
1 month	13.50	14.00	10.90
3 months	13.60	14.15	11.36
6 months	13.55	14.05	12.09
Eurodollar Deposits			
1 month	14.69	14.50	11.56
2 months	14.69	14.81	11.75
3 months	14.75	14.81	11.94
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	11.00	13.25	9.00
1 month	13.50	13.63	10.25
3 months	12.00	12.00	10.00
Bank Holding Companies			
1 month	13.38	13.75	10.25
Dealer Placed:			
3 months	13.50	13.75	10.50
New Aa Corporate Utility Bond	11.85	11.85	9.50
Tax Exempt			
6 month Project Notes	5.75	6.05	5.20
12 month Project Notes	N/A	N/A	5.65
20 year AAA Bond	6.75	6.70	6.20

This information represents prevailing market yields. It should not be construed as an offering. All yields are on the offered side of the market.

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Financial Markets

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**Economic Research &
Planning Division**

B 4750-1

Jan. 4, 1980

Hopes of a New Year's rally reminiscent of January 1979 dimmed in the opening days of 1980. Political uncertainties were intensified by the bold Russian military advance into Afghanistan, which is likely to exacerbate already unstable political conditions throughout the Middle East. The ensuing negative investor sentiment that rippled throughout world financial markets sent the dollar plummeting to historic lows and briefly pushed the price of gold through the $600 barrier. At home, bond prices turned down and, in the Treasury market, pushed the yield on Thursday's $1.5 billion 15-year bond auction to a record average of 10.60%. That yield did produce some retail interest on Friday, and prices stabilized as the week ended.

The disturbing political developments in the Middle East clearly had a greater effect on the markets than did the accumulating evidence that 1980 will be the year the economy moved into a recession. The November dip in the index of leading indicators, off 1.3% after a similarly sharp fall in October, is the strongest signal yet from this statistic that a business downturn is in the making. December auto output remained in a slump, and continuing weakness in sales has prompted further layoffs in the auto industry. Nor do initial reports suggest that Christmas buying was strong enough to counter the underlying weakness in the consumer sector.

The recent moderation in money growth may also be a reflection of declining business activity. Since October 6 when the Federal Reserve announced new measures to curb monetary expansion, M_1 has increased only marginally, and M_2 growth has been about 5 1/2%, down considerably from the pre-October pace. But it is much too early for the Federal Open Market Committee to consider shifting policy gears when it meets on Wednesday. For one thing, despite the slower growth in the conventional monetary aggregates, there has still been no appreciable slowdown in total reserve expansion since the October moves, and the monetary base has shown signs of speeding up in recent weeks. Some moderation in reserves would seem a prerequisite to easing credit policy under a reserve-targeting policy approach.

More importantly, as Federal Reserve Chairman Paul Volcker emphasized again this week, the credibility of the U.S. inflation fighting effort remains on the line in the domestic and international credit markets. Until inflation shows signs of slowing--and to date it clearly hasn't--policy easing might be construed as a crack in the Fed's resolve, and so the credit authorities can be expected to resist the impulse to relax policy with the first signs of a softening economy. Rates will begin to decline as credit demand subsides in 1980, but the resultant downturn in rates is unlikely to be as pronounced as might ordinarily be expected.

Glenn C. Picou

Irving Trust

Money Market Rates

	1/4/80 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating.	15.25%	15.25%	11.75%
Effective since	12/7/79		
Discount Rate at Federal Reserve Bank	12.00	12.00	9.50
Federal Funds	13.75	13.50	10.00
Repurchase Agreements	12.63	11.85	9.70
U.S. Treasury Issues - Yields			
Bills			
3 months	12.65	11.95	9.70
6 months	12.60	12.36	10.00
1 year	11.75	11.89	10.45
Coupons			
2 years	11.42	11.34	9.85
4 years	10.63	10.58	9.37
7 years	10.59	10.34	9.17
10 years	10.59	10.41	9.10
Long Bond	10.26	10.11	8.92
Negotiable Certificates of Deposit-Secondary Market			
1 month	13.40	13.35	10.30
3 months	13.60	13.55	10.65
6 months	13.70	13.65	11.30
1 year	12.50	12.50	11.15
Bankers' Acceptances			
1 month	13.45	13.40	10.29
3 months	13.70	13.65	10.68
6 months	13.85	13.60	11.42
Eurodollar Deposits			
1 month	14.38	14.63	10.80
2 months	14.56	14.75	11.10
3 months	14.63	14.75	11.30
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	12.00	N/A	6.00
1 month	13.25	13.50	10.13
3 months	12.00	12.00	10.00
Bank Holding Companies			
1 month	13.38	13.55	10.13
Dealer Placed:			
3 months	13.30	13.50	10.45
New Aa Corporate Utility Bond	11.85	11.90	9.50
Tax Exempt			
6 month Project Notes	5.60	6.10	5.40
12 month Project Notes	N/A	N/A	5.50
20 year AAA Bond	6.90	7.00	5.95

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Financial Markets

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**Economic Research &
Planning Division**

B4750-1

Jan. 11, 1980

Market sentiment seemed to improve a bit this week. After the past few weeks, during which international concerns tended to weigh heavily on bond prices, the markets began to redirect their attention to domestic economic considerations that increasingly suggest interest rates will be moving down over the course of the year. The foreign exchange markets calmed down. And news on inflation, money, and credit brought no unpleasant surprises. But the modest rise in December's unemployment rate to 5.9% was somewhat unexpected. That, and the prospects for a pickup in new bond supplies in the corporate and government markets, was enough to erase earlier gains and leave bond prices off a little for the week.

Just how serious the U.S. inflation problem is can be seen from the markets' reaction to December's producer price statistics. A 9.6% annual rate of increase was viewed favorably, being the smallest increase and the first single-digit increase since June. The increase placed the producer price gain for the year at 12.5%.

Also contributing to the markets' firm tone was the weekly money supply release. There was a nominal M_1 gain and no change in M_2, continuing into the first week of 1980 the apparent slowdown in the momentum of monetary expansion. The Federal Reserve also reported that revised money statistics indicated a 5.5% increase in M_1, and an 8.3% gain in M_2 over the year 1979; both estimates were slightly higher than the preliminary data had suggested. M_1 growth was somewhat below the 6% upper annual target limit set by the Federal Open Market Committee, while the pace of M_2 expansion was only marginally above its 8% ceiling.

Evidence of slower consumer credit expansion also persisted. Consumer credit grew $2.4 billion in November, virtually identical with October's pace. The share of take-home pay that consumers are using for debt repayments rose steadily last year; delinquencies, too, began heading up last quarter. And Commerce Department estimates suggest that continued expansion of real GNP growth in the fourth quarter—of 2% to 3%—was fueled by a slowdown in savings to a very low rate; the savings rate in October reached a historic low of 3.3%. All in all, it would appear that mounting liquidity strains in the household sector will keep consumer credit demand under control in 1980.

Glenn C. Picou

Irving Trust

Money Market Rates

	1/11/80 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating.	15.25%	15.25%	11.75%
Effective since	12/7/79		
Discount Rate at Federal Reserve Bank.	12.00	12.00	9.50
Federal Funds	14.07	13.75	10.00
Repurchase Agreements	12.50	12.63	9.70
U.S. Treasury Issues - Yields			
Bills			
3 months	12.15	12.65	9.70
6 months	12.55	12.60	10.00
1 year.	11.80	11.75	10.45
Coupons			
2 years	11.27	11.42	9.85
4 years	10.62	10.63	9.37
7 years	10.59	10.59	9.17
10 years	10.61	10.59	9.10
Long Bond.	10.31	10.26	8.92
Negotiable Certificates of Deposit-Secondary Market			
1 month	13.30	13.40	10.30
3 months	13.35	13.60	10.65
6 months	13.37	13.70	11.30
1 year.	12.55	12.50	11.15
Bankers' Acceptances			
1 month	13.15	13.45	10.29
3 months	13.35	13.70	10.68
6 months	13.40	13.85	11.42
Eurodollar Deposits			
1 month	14.00	14.38	10.80
2 months	14.13	14.56	11.10
3 months	14.19	14.63	11.30
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	12.25	12.00	6.00
1 month.	12.75	13.25	10.13
3 months	12.00	12.00	10.00
Bank Holding Companies			
1 month.	13.00	13.38	10.13
Dealer Placed:			
3 months	13.00	13.30	10.45
New Aa Corporate Utility Bond	11.88	11.85	9.50
Tax Exempt			
6 month Project Notes.	5.75	5.60	5.40
12 month Project Notes.	N/A	N/A	5.50
20 year AAA Bond.	6.70	6.90	5.95

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Financial Markets

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**Economic Research &
Planning Division**

B 4750-1

Jan. 18, 1980

The bond markets came under renewed downward pressure this week. There was no particularly bad news; the economic results that did come out simply reinforced the recent indications that the economy managed to register positive growth in the fourth quarter of 1979. In December, industrial production was up at a 3.6% annual rate, and housing starts inched marginally higher. On Friday, the Commerce Department made it official (subject to revision of course) by announcing its preliminary estimate that fourth-quarter real GNP was up at a 1.4% annual rate. Market participants will just have to wait a little longer for signs of the long-awaited economic recession, along with its potential for easing inflation and producing a cyclical downturn in interest rates.

The weekly money statistics proved discouraging for the markets too. On Wednesday, adjusted demand deposits at large commercial banks, which constitute a sizable portion of M_1 balances, were down sharply for the week of January 9. Market participants who use adjusted deposits as an indicator of money supply movements saw the news as evidence of a large M_1 drop, which contributed to a brief rally in the markets. But Thursday's money numbers revealed only a $700 million decline in M_1, and M_2 was up $1.1 billion.

Following the news on housing and money, government bond prices pushed lower with the 10 3/8's of 2009 testing their previous lows, and yielding 10.60%. The government market may also be looking ahead to a buildup in supply for the next few months. The Treasury will be financing a Federal deficit estimated at about $25 billion for the first quarter, and market offerings should total about $15 billion, half again as much as last year's first quarter.

Supply weighed heavily in the corporate bond market too. Southwestern Bell's hefty $450 million offering of AAA bonds got a subdued investor reception though it carried an 11 3/8% coupon and was initially priced to yield a record 11.47%. When released to trade in the market, it promptly dropped three points, which left it yielding 11.75%. Looking further ahead, the offering was but the first in a parade of telephone issues that will total almost $5 billion before the year is out, up 50% from the industry's borrowing pace last year. Industrial offerings will be up too. The cyclical erosion in corporate liquidity that began in 1977 has pushed liquidity ratios to levels that are currently near or below their 1974 lows. Pressure is therefore building on many corporate treasurers to begin issuing long-term debt in order to fund the large buildup in short-term borrowings of the past few years. Such prospects for ample supplies of new bonds suggest that, until there is some persuasive evidence that inflation is heading down, it is going to take very generous yields to entice investors into longer-term investments.

Glenn C. Picou

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Money Market Rates

Prime Lending Rate at Irving Trust Company	1/18/80	Week Ago	Year Ago
Short-term loans to substantial depositors	(noon)	15.25%	11.75%
with highest credit rating	15.25%		
Effective since	12/7/79		
Discount Rate at Federal Reserve Bank	12.00	12.00	9.50
Federal Funds	13.63	14.07	10.00
Repurchase Agreements	12.50	12.50	9.70
U.S. Treasury Issues - Yields			
Bills			
3 months	12.55	12.15	9.75
6 months	12.76	12.55	10.15
1 year	11.96	11.80	10.45
Coupons			
2 years	11.47	11.27	9.94
4 years	10.72	10.62	9.36
7 years	10.75	10.59	9.24
10 years	10.78	10.61	9.14
Long Bond	10.54	10.31	8.97
Negotiable Certificates of Deposit-Secondary Market			
1 month	13.30	13.30	10.20
3 months	13.45	13.35	10.55
6 months	13.45	13.37	11.14
1 year	12.75	12.55	10.95
Bankers' Acceptances			
1 month	13.35	13.15	10.00
3 months	13.55	13.35	10.27
6 months	13.55	13.40	11.08
Eurodollar Deposits			
1 month	14.06	14.00	10.44
2 months	14.13	14.13	10.69
3 months	14.13	14.19	11.06
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	12.88	12.25	6.00
1 month	13.00	12.75	10.00
3 months	11.75	12.00	9.88
Bank Holding Companies			
1 month	13.00	13.00	10.00
Dealer Placed:			
3 months	12.88	13.00	10.00
New Aa Corporate Utility Bond	12.05	11.88	9.55
Tax Exempt			
6 month Project Notes	5.65	5.75	5.30
12 month Project Notes	N/A	N/A	5.60
AAA Municipal Bond	7.00	6.70	5.95

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Economic Research &
Planning Division

B 4750-1

Friday Jan. 25, 1980

It was another bad week for the bond markets. No specific new developments accounted for the markets' early week decline; as the traders said, prices just wanted to go down under the accumulated weight of uncertainties about Iran, Afghanistan, inflation, and heavy supply calendars. The markets did try to come back at mid-week. A stronger than expected auction for the Treasury's $4 billion offering of two-year notes brought more than $8 billion in bids, with an average yield on the issue of 11.52%, 15-20 basis points lower than initial estimates. But the rebound came to an end following the President's State of the Union message, which intensified concerns over the international situation, and prices turned down again. Thursday's suggestion of reviving money growth added to the downward momentum, and the new note traded off about 1/2 point, to yield 11.80%. In the longer end of the government market, the 10 3/8% long bond traded at a record low price to yield 10.95%. The markets seemed to stabilize on Friday, despite the news of a 1.2% jump--a 14.4% annual rate--in the December consumer price index, but with little hope of near-term improvement.

The markets' mid-week breather was due in part to Federal Reserve actions in the open market. On Tuesday and again on Wednesday, the Fed carried out operations to supply reserves, a move that was viewed by some market participants as a shift toward slightly less monetary restraint. As it turned out, however, the actions were technical in nature. Float--the credit extended by the Fed to commercial banks during normal check processing--fell this week, while projections called for an increase. The authorities' injection of a sizable volume of reserves to the banking system was thus intended to maintain existing money market conditions, rather than to signify a shift in policy.

If anything, the behavior of the monetary aggregates may be giving the credit authorities reason to contemplate the need for further tightening. The latest weekly money figures showed gains of $1.0 billion in M_1 and $2.5 billion in M_2. As the Fed warns at the bottom of the weekly release on monetary aggregates, "special caution should be taken in interpreting week-to-week changes in money supply data." But the late 1979 monetary slowdown that Fed Chairman Paul Volcker --and more recently New York Fed President-designate Anthony Solomon--has cited as evidence of monetary restraint has become less convincing as the January figures come in.

Monetary policy has clearly been a primary focus of market attention in recent months. But the President's Budget message is sure to push fiscal policy into the limelight for a while. The President made it clear in this week's State of the Union Address that the pace of defense expenditures will be boosted in a move to bolster U.S. military strength. It will of course take a while to implement new expenditure plans. But it is likely that the next few years will see faster, not slower, growth in Federal outlays, which could generate faster economic expansion, reduce prospects for cutting the deficit, and release new inflationary pressures.

Glenn C. Picou

Irving Trust

Money Market Rates

	1/25/80 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating.	15.25%	15.25%	11.75%
Effective since	12/7/79		
Discount Rate at Federal Reserve Bank	12.00	12.00	9.50
Federal Funds	14.00	13.63	10.05
Repurchase Agreements	12.40	12.50	9.60
U.S. Treasury Issues - Yields			
Bills			
3 months	12.87	12.55	9.68
6 months	12.98	12.76	9.99
1 year	12.36	11.96	10.25
Coupons			
2 years	11.82	11.47	9.72
4 years	11.04	10.72	9.10
7 years	11.05	10.75	8.97
10 years	11.09	10.78	8.95
Long Bond	10.96	10.54	8.85
Negotiable Certificates of Deposit-Secondary Market			
1 month	13.50	13.30	9.85
3 months	13.55	13.45	10.25
6 months	13.75	13.45	10.70
1 year	13.25	12.75	10.75
Bankers' Acceptances			
1 month	13.30	13.35	9.88
3 months	13.60	13.55	10.20
6 months	13.85	13.55	10.75
Eurodollar Deposits			
1 month	14.25	14.06	10.31
2 months	14.44	14.13	10.50
3 months	14.63	14.13	10.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	12.50	12.88	6.00
1 month	13.00	13.00	9.63
3 months	12.00	11.75	9.63
Bank Holding Companies			
1 month	13.05	13.00	9.88
Dealer Placed:			
3 months	13.15	12.88	10.25
New Aa Corporate Utility Bond	12.40	12.05	9.50
Tax Exempt			
6 month Project Notes	5.85	5.65	5.25
12 month Project Notes	N/A	N/A	5.40
20 year AAA Bond	7.00	7.00	5.80

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Financial Markets

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**Economic Research &
Planning Division**

Friday Feb. 1, 1980

Forecasters expecting a recession suddenly find themselves leaning against the breeze. This is quite a shift from last year when the opposite was true. But leaning against the wind last year was a good place to be and may be once again. The economists who have recently withdrawn their recession forecast are understandably reacting to the current war psychology. But they may be overreacting. Although military spending will be up in the future, it is not likely to have much impact on the economy in 1980. And the increase in spending will result in fewer tax cuts and less money available for other programs, not necessarily higher deficits. The likelihood of an emergency mobilization at this point seems small. The major deterrent to aggression by a major power remains the implied threat of nuclear retaliation, as has been the case throughout the postwar period. A few more F-16s a little bit faster are not likely to add much to this deterrent. A well planned long-run program to deal better with conventional wars seems the alternative that will eventually be decided upon.

Meanwhile, the recession arguments keep getting better and better. Leading indicators have been declining now for 10 months. Their typical lead time for a recession is 9-12 months; by this reckoning we are now vulnerable. And the further financing of increases in retail sales through further declines in the savings rate seems unlikely to continue as the consumer begins to worry about rising unemployment. So far, the recession has been a cerebral event. It's been talked about, but there haven't been any gut fears. These tend to feed on themselves and are produced by actual layoffs and the prospect of corporate cost-cutting drives caused by falling profits. The unemployment rate in January seems to have begun to rise, and falling profits may not be far behind. Finally, the auto industry has been in a recession for about nine months, but housing has so far held up fairly well. Weakness in housing in conjunction with weakness in autos has typically meant a slide in aggregate business activity, and the housing industry is likely to be weak in the first half of 1980, considering the significantly lower housing starts and permits figures registered at the end of 1979.

The inflationary war psychology that is in the air has produced an unusual divergence in the fixed income markets. Typically short- and long-term rates move together, but this has not been the case in recent weeks. Long-bond yields this week were at record highs and up a significant 100 basis points from the first of the year. Short-term rates, on the other hand, have changed very little. Ninety-day CD rates, for instance, have traded from 13.30 to 13.60 this year. They are down 100 basis points or more from the peak of the rate spike last October. If the recession takes hold soon, it appears that short rates have peaked and that the peak occurred in October. On the other hand, if long rates have peaked, it must have happened this week.

Gordon B. Pye

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20 1980

Irving Trust

Money Market Rates

	2/1/80 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	15.25%	15.25%	11.75%
Effective since	12/7/79		
Discount Rate at Federal Reserve Bank	12.00	12.00	9.50
Federal Funds	13.38	14.00	10.00
Repurchase Agreements	12.38	12.40	9.55
U.S. Treasury Issues - Yields			
Bills			
3 months	12.60	12.87	9.55
6 months	12.82	12.98	9.80
1 year	12.42	12.36	10.00
Coupons			
2 years	11.81	11.82	9.50
4 years	11.20	11.04	8.80
7 years	11.20	11.05	8.82
10 years	11.14	11.09	8.87
Long Bond	11.12	10.96	8.84
Negotiable Certificates of Deposit-Secondary Market			
1 month	13.15	13.50	9.80
3 months	13.40	13.55	10.00
6 months	13.55	13.75	10.30
1 year	13.20	13.25	10.00
Bankers' Acceptances			
1 month	13.20	13.30	9.70
3 months	13.50	13.60	9.80
6 months	13.60	13.85	9.85
Eurodollar Deposits			
1 month	13.94	14.25	10.31
2 months	14.19	14.44	10.50
3 months	14.25	14.63	10.56
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	12.00	12.50	9.00
1 month	12.25	13.00	9.75
3 months	13.00	12.00	9.63
Bank Holding Companies			
1 month	13.05	13.05	9.75
Dealer Placed:			
3 months	13.25	13.15	9.90
New Aa Corporate Utility Bond	12.50	12.40	9.55
Tax Exempt			
6 month Project Notes	5.70	5.85	5.05
12 month Project Notes	N/A	N/A	5.25
20 year AAA Bond	7.00	7.00	5.70

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Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday Feb. 8, 1980

For most of the week, it was pretty much the same old story in the bond markets, as prices plummeted and yields soared. The markets weakened as traders tried to unload positions but merely ended up shifting bonds among themselves instead. After prices had fallen several points, some retail buying interest appeared on Thursday, encouraged perhaps by the bullishly moderate December increase in consumer credit. With high-grade utility bond yields approaching 13%, and U.S. Treasury bond yields nearing 12%, some investors cautiously began to direct funds into longer-term investments and contributed to a slight pickup in prices from their latest record lows.

Prices rebounded more on Friday, in part because of the markets' positive response to the new slate of money stock measures announced by the Federal Reserve late Thursday evening. Some of the measures represented conceptual changes designed to reflect the significant financial innovations that have occurred in recent years. For example, money market funds, which have grown by over $40 billion during the past year, are clearly an important new type of transaction account, and thus were incorporated in a few of the new money definitions. Other definitions, however, look very familiar.

M1A is nothing more than the old M1, adjusted to exclude balances of foreign banks and official institutions;

M1B includes M1A plus NOW accounts and automatic transfer accounts at banks and thrifts, credit union share drafts, and mutual savings bank checking accounts. This concept is very similar to the almost forgotten M1+ measure (introduced in November 1978) adjusted to exclude traditional time and savings deposits without any type of checking facility;

M2 represents a new broader concept of money measurement. It includes M1B plus traditional time and savings deposits other than large CDs at all depository institutions, money market fund assets, overnight Eurodollars, and overnight corporate repurchase agreements;

M3 adds to M2 large time deposits and term repurchase agreements at commercial banks and savings and loan associations;

L is a broad measure of liquidity that adds to M3 a number of other short-term assets.

Despite the changes, the Federal Reserve indicated that M1A, which does not differ significantly from the old M1, will be the money measure used to establish short-run targets for bank reserves. Moreover, according to the Fed, M1A and all the other new measures are in line with growth targets set at this week's meeting of the Federal Open Market Committee. Judging from these observations, it is clear that the new money measures leave intact the Fed's frequently publicized satisfaction with its efforts to control monetary expansion since October 6. Though the Fed sees nothing in the money figures at present to warrant further monetary restraint, ample reserve availability and the resurgent expansion of business credit in recent weeks raise serious questions about how tight policy has been, is, and may have to become.

Glenn C. Picou

Irving Trust

Money Market Rates

	2/8/80 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	15.25%	15.25%	11.75%
Effective since	12/7/79		
Discount Rate at Federal Reserve Bank	12.00	12.00	9.50
Federal Funds	13.00	13.38	10.05
Repurchase Agreements	11.75	12.38	9.60
U.S. Treasury Issues - Yields			
Bills			
3 months	12.30	12.60	9.55
6 months	12.84	12.82	9.95
1 year	12.63	12.42	10.18
Coupons			
2 years	12.00	11.81	9.64
4 years	11.40	11.20	9.10
7 years	11.60	11.20	9.09
10 years	11.55	11.14	9.09
Long Bond	11.60	11.12	8.99
Negotiable Certificates of Deposit-Secondary Market			
1 month	13.25	13.15	9.85
3 months	13.40	13.40	10.10
6 months	13.70	13.55	10.50
1 year	13.40	13.20	10.75
Bankers' Acceptances			
1 month	13.15	13.20	9.75
3 months	13.43	13.50	9.90
6 months	13.73	13.60	10.05
Eurodollar Deposits			
1 month	13.81	13.94	10.50
2 months	14.19	14.19	10.75
3 months	14.38	14.25	10.88
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.00	12.00	9.00
1 month	13.00	12.25	9.75
3 months	12.25	13.00	9.63
Bank Holding Companies			
1 month	13.13	13.05	9.75
Dealer Placed:			
3 months	13.05	13.25	10.05
New Aa Corporate Utility Bond	13.10	12.50	9.55
Tax Exempt			
6 month Project Notes	5.50	5.70	5.10
12 month Project Notes	N/A	N/A	5.35
20 year AAA Bond	7.00	7.00	5.75

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Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

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Friday Feb. 15, 1980

In a busy finale to a nervous week, events on Friday morning compounded confusion and left participants wondering which way to look next. First, the Labor Department announced a 1.6% jump in January producer prices for finished goods, much more than most market watchers had expected. Then, the Federal Reserve announced a 1% discount rate hike to an all-time record of 13%. Finally, the Federal funds rate edged up after the discount rate hike. The absence of Fed response to this, some would argue, may be a sign of Fed tightening.

All this did nothing to calm the market's jangled nerves, and prices continued the downtrend that began on Monday. Prices of two-year Treasury notes hit all-time lows on Thursday and fell further after Friday's news, while the one-year bill hit new lows on Friday. Declines in longer-term securities were less dramatic, but the market retreat went across the board.

This week's decline continued a trend that has been in process since the start of the year, and reflects the wrenching U-turn that is taking place in many observers' assessments of the economic outlook. Recessionary expectations are giving way to inflation fears (a process that may be compounded by the feeling that even if a recession does come it may not do much about inflation), and investors are more and more averse to long-term fixed income investments.

Recent January economic data confirmed the market's worst fears in this direction. Even before the inflation number was reported, announcement of a 2.3% jump in January retail sales was unsettling; even allowing for seasonal adjustment problems and mild weather, this points to more economic strength than had been expected. As to the producer price data, the January jump was twice the 0.6%-0.8% most observers had expected and was the sharpest increase since November 1974. Energy price hikes were a major factor, but other prices are moving up too--consumer durables prices, for example, rose 3.2% in January.

Reaction to Friday's news was a measure of the persistent pessimism of the market's underlying mood. Inflation news was unequivocally negative, but the discount rate hike could have been taken either way. Markets focused on the dim side. Instead of interpreting the Fed's action as an appropriate reaction to inflationary pressures and bidding up prices for longer-term issues, the immediate response concentrated on the negative impact of higher short-term rates on cost of carry.

Why? The dust is far from settled, and it is too early to form a fixed conclusion, but some market watchers argue that the discount rate hike (and the subsequent edging up in Federal funds) may yet be followed by further tightening moves. With no clear idea as to how far the Fed may go (if indeed a policy shift is in process) investors may prefer to adopt a wait-and-see policy. Near-term prospects are very uncertain, but this week's events emphasize once again that interpreting policy actions has become a more difficult job since the Fed de-emphasized the Federal funds rate as a target of credit policy.

Anne Parker Mills

Irving Trust

Money Market Rates

	2/15/80 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	15.25%	15.25%	11.75%
Effective since	12/7/79		
Discount Rate at Federal Reserve Bank	13.00	12.00	9.50
Federal Funds	14.75	13.00	10.12
Repurchase Agreements	12.50	11.75	9.60
U.S. Treasury Issues - Yields			
Bills			
3 months	13.63	12.30	9.60
6 months	14.15	12.84	9.95
1 year	13.82	12.63	10.18
Coupons			
2 years	13.10	12.00	9.67
4 years	12.25	11.40	9.15
7 years	12.20	11.60	9.11
10 years	12.15	11.55	9.12
Long Bond	12.10	11.60	9.02
Negotiable Certificates of Deposit-Secondary Market			
1 month	13.75	13.25	9.90
3 months	14.00	13.40	10.25
6 months	14.45	13.70	10.65
1 year	13.75	13.40	10.85
Bankers' Acceptances			
1 month	13.60	13.15	9.90
3 months	14.00	13.43	10.00
6 months	14.50	13.73	10.10
Eurodollar Deposits			
1 month	14.75	13.81	10.50
2 months	14.88	14.19	10.69
3 months	15.13	14.38	10.88
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	12.75	8.00	9.50
1 month	13.00	13.00	9.75
3 months	12.25	12.25	9.63
Bank Holding Companies			
1 month	13.13	13.13	9.70
Dealer Placed:			
3 months	13.38	13.05	10.05
New Aa Corporate Utility Bond	13.75	13.10	9.65
Tax Exempt			
6 month Project Notes	6.25	5.50	5.10
12 month Project Notes	N/A	N/A	5.30
20 year AAA Bond	7.50	7.00	5.75

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Financial Markets

Irving Trust

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New York, NY 10015

Economic Research & Planning Division

Friday Feb. 22, 1980

Pent-up frustrations this week reached the blow-off stage in the bond market. Most market participants have long been expecting a recession that would bring relief with respect to inflation and high interest rates. These expectations, however, have been repeatedly dashed as the economy refuses to decline. For too long, portfolio managers have been told that now is a good time to lock in attractive long-term yields only to find more attractive yields the next week with even larger losses in their bond portfolios. Tempers recently have reached the breaking point as data continue to come in showing a growing economy, accelerating inflation, and a possible resurgence of monetary growth. The result has been a buyers' strike and an unprecedented decline in the long-term bond market. Since the beginning of the year, long-term governments have dropped 20%, raising their yields by 275 basis points. On last Tuesday alone, the new 11 3/4s dropped by almost 4%, raising their yield by 65 basis points to 12.60%.

But in this adversity there is opportunity for those who can keep their cool. Looking back a year from now, today's yields are likely to seem very attractive. One may be slightly disappointed at not having hit the precise peak, but that will be a small matter compared with not having participated at these levels at all.

The current atmosphere seems to be the reverse of that at the end of 1976 when bond prices peaked. Back then, the prevailing sentiment was that interest rates would never rise again. Now it seems hard to believe that rates will ever fall. It feels like we're getting near the bottom. In any case, as rates get higher and higher, the odds on that recession get better and better.

The short-term markets were clearly impressed by the Federal Reserve's discount rate hike to 13%. Ninety-day CDs quickly responded by rising 150 basis points to about 15%. But the real question now is will short-term rates stay as high as they are without additional actions by the Fed. They were almost as high last October but dropped when the expected follow-up by the Fed did not materialize. Short rates will likely drop again if no additional tightening is perceived. The Federal Reserve says that the monetary aggregates have been within their targets since the October 6 policy change and that this is just the follow-up that should have been expected under their new policy. Moreover, the Fed contends that policy has been tight since the growth targets for the monetary aggregates are conservative. But the markets seem to think that interest rates matter more than money and that tightening requires higher rates and less liquidity in the banking system not just slow monetary growth.

Gordon B. Pye

Irving Trust

Money Market Rates

	2/22/80 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	16.25%	15.25%	11.75%
Effective since	2/22/80		
Discount Rate at Federal Reserve Bank	13.00	13.00	9.50
Federal Funds	14.50-15.50	14.75	10.00
Repurchase Agreements	13.75	12.50	9.65
U.S. Treasury Issues - Yields			
Bills			
3 months	14.18	13.63	9.75
6 months	14.65	14.15	10.15
1 year	15.18	13.82	10.36
Coupons			
2 years	14.62	13.10	9.88
4 years	14.10	12.25	9.22
7 years	13.30	12.20	9.20
10 years	13.25	12.15	9.13
Long Bond	12.85	12.10	9.08
Negotiable Certificates of Deposit-Secondary Market			
1 month	15.05	13.75	10.00
3 months	15.10	14.00	10.40
6 months	15.35	14.45	10.90
1 year	15.75	13.75	11.00
Bankers' Acceptances			
1 month	14.90	13.60	9.80
3 months	15.50	14.00	10.00
6 months	16.05	14.50	10.15
Eurodollar Deposits			
1 month	16.25	14.75	10.38
2 months	16.38	14.88	10.56
3 months	16.63	15.13	10.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	13.25	12.75	9.38
1 month	14.00	13.00	9.75
3 months	13.00	12.25	9.75
Bank Holding Companies			
1 month	14.25	13.13	9.75
Dealer Placed:			
3 months	14.30	13.38	9.80
New Aa Corporate Utility Bond	14.40	13.75	9.60
Tax Exempt			
6 month Project Notes	7.10	6.25	5.15
12 month Project Notes	N/A	N/A	5.35
20 year AAA Bond	7.95	7.50	5.85

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Financial Markets

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**Economic Research &
Planning Division**

B 4750-1

Friday Feb. 29, 1980

A badly oversold bond market searched for an excuse to rally this week and found one. Rumors began to circulate of a major new anti-inflation initiative by the administration. The package was expected to contain proposals for major cuts in spending in the 1981 budget and perhaps some limited form of credit controls. Long-term government prices began to stabilize by midweek and then jumped sharply, by more than 3%, on Thursday.

There were also rumors of a wage and price freeze or mandatory controls, but these seem much less likely for now. It is certainly true that the administration feels significant political momentum developing for taking some action. But it probably believes that this can be relieved at least temporarily by a package of spending cuts, along with additional Federal Reserve action. The administration would like to use any wage and price freeze or mandatory controls only as a last resort. There are two reasons.

First, many economic policymakers in the administration undoubtedly feel that controls won't work. In the short run, the effects of controls always seem to be favorable: The inflation rate does seem to slow, and there may even be some stimulus to economic activity as people buy in advance to beat future price increases after the controls are lifted. But these positive effects don't last very long. Soon, shortages begin to appear, and the consumer discovers that these shortages are even worse than the inflation. It doesn't make much difference that the price of beef isn't going up if there isn't any beef on the supermarket shelf. People also soon find that although prices aren't going up as fast, neither are their own wages. Contention begins to develop as exceptions to the program are allowed, and some products and wages are exempted from the controls or treated more leniently. The second reason to avoid controls is that from a political point of view this is a poor time to apply them. The trick in applying controls is to put them on close enough to an election so that the favorable effects are perceived but before all the problems begin to multiply. At the present time, November is too far away.

The growth of credit extended by the banking system has slowed significantly since the Federal Reserve's actions on October 6. Loans have been rising at only an 8% annual rate versus a 22% rate of increase over the comparable period prior to the change. Over the full year up till October 6, loans were up 20%. These figures are based on all loans (exclusive of money market loans) made by the large weekly reporting commercial banks. Business loans at these same banks have been rising at an annual rate of only 9% since October 6. Credit growth in the banking system does not seem to have been excessive recently. Thus, there is no evidence that additional controls are needed on bank credit expansion. In fact, the Fed already has at its disposal tools to control bank credit, which aren't being used. For instance, the Fed could increase the proportion of bank reserves suppplied at the discount window and exercise window surveillance over the asset growth of banks using this facility.

On the other hand, there has been no slowdown in the rate of commercial paper issuance since October 6. Paper issued by all institutions has been rising at a 34% annual rate since then, just about the same rate of increase as occurred over the prior year. Paper issued by nonfinancial corporations has been increasing at a 49% annual rate.

Gordon B. Pye

Irving Trust

Money Market Rates

	2/29/80 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	16.75	16.25%	11.75%
Effective since	2/29/80		
Discount Rate at Federal Reserve Bank	13.00	13.00	9.50
Federal Funds	15.50	14.50-15.50	10.00
Repurchase Agreements	13.25	13.75	9.65
U.S. Treasury Issues - Yields			
Bills			
3 months	14.55	14.18	9.75
6 months	15.10	14.65	10.07
1 year	15.40	15.18	10.32
Coupons			
2 years	14.66	14.62	9.85
4 years	13.71	14.10	9.30
7 years	13.08	13.30	9.22
10 years	12.80	13.25	9.16
Long Bond	12.29	12.85	9.08
Negotiable Certificates of Deposit-Secondary Market			
1 month	15.00	15.05	10.00
3 months	15.65	15.10	10.20
6 months	16.05	15.35	10.60
1 year	16.00	15.75	10.80
Bankers' Acceptances			
1 month	14.95	14.90	9.90
3 months	15.60	15.50	9.95
6 months	16.10	16.05	10.20
Eurodollar Deposits			
1 month	16.25	16.25	10.25
2 months	16.63	16.38	10.50
3 months	17.00	16.63	10.56
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	14.00	13.25	9.00
1 month	14.50	14.00	9.75
3 months	14.00	13.00	9.75
Bank Holding Companies			
1 month	14.63	14.25	9.75
Dealer Placed:			
3 months	14.88	14.30	10.00
New Aa Corporate Utility Bond	14.50	14.40	9.85
Tax Exempt			
6 month Project Notes	7.00	7.10	5.15
12 month Project Notes	N/A	N/A	5.40
20 year AAA Bond	8.50	7.95	5.85

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Irving Trust

Financial Markets

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Economic Research &
Planning Division

B 4750-1

Friday Mar. 7, 1980

An 18% inflation rate reported for producer prices in February seemed to highlight the economic policy uncertainties dominating the credit markets. Market participants speculated about an imminent sharp jump in the discount rate, perhaps to 15%, and also heard rumors that the Federal Reserve was considering a floating discount rate to be tied to the Federal funds rate--all in an effort to further rein in credit expansion. There were also signals from Washington that the administration and Congress were on the verge of taking steps to cut government outlays this fiscal year and next by as much as $25 billion. And talk of controls--wage, price, and credit--filled the air.

Yet despite the spreading conviction (hope?) that a comprehensive and dramatic package of proposals to attack intensifying inflationary pressures might be in the wings, bond prices continued to fall. Market participants have been burned too many times in the recent past by betting on the promise of tough new anti-inflation measures that proved to be only a rhetorical shell game. The next move is up to Washington, and until convincing action is taken, further deterioration in bond prices seems the most likely outcome.

For now, the inflation battle is being fought by the Federal Reserve. And the Fed's actions in the money markets seem to indicate a willingness to let short-term rates move still higher if necessary to cool money and credit expansion. The Federal funds rate did come down from the 17% range that prevailed last Friday, but when funds hit the 15% mark, the Fed intervened to absorb reserves through overnight reverse repurchase agreements. And by Friday, funds were again trading near 17%.

Short-term rates surged, with banks offering 17% and more for three-month C.D. money, up sharply from last week. The increase in the cost of bank funds, to an effective rate well over 18%, led to another boost in the prime rate to 17 3/4% (one bank went to 18%) from the 17 1/4% level posted earlier in the week. In the government market, the Treasury found itself paying a record 15.1% at last Monday's auction on three-month Treasury bills as it contended with a flow of bill sales from foreign central banks seeking dollars to support their own currencies. As the week came to an end, the money markets appeared to be settling into the same state of disarray that has characterized the bond markets for some time now.

Glenn C. Picou

Irving Trust

Money Market Rates

	3/7/80 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	17.75%	16.75%	11.75%
Effective since	3/7/80		
Discount Rate at Federal Reserve Bank	13.00	13.00	9.50
Federal Funds	17.00	15.50	10.00
Repurchase Agreements	15.75	13.25	9.75
U.S. Treasury Issues - Yields			
Bills			
3 months	16.71	14.55	9.75
6 months	16.85	15.10	10.00
1 year	16.22	15.40	10.20
Coupons			
2 years	15.40	14.66	9.70
4 years	14.25	13.71	9.18
7 years	13.45	13.08	9.08
10 years	13.10	12.80	9.08
Long Bond	12.60	12.29	9.01
Negotiable Certificates of Deposit-Secondary Market			
1 month	17.25	15.00	9.90
3 months	17.75	15.65	10.18
6 months	18.00	16.05	10.53
1 year	17.00	16.00	10.25
Bankers' Acceptances			
1 month	17.25	14.95	9.88
3 months	17.80	15.60	10.10
6 months	18.50	16.10	10.47
Eurodollar Deposits			
1 month	18.25	16.25	10.38
2 months	18.75	16.63	10.50
3 months	18.88	17.00	10.63
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	17.00	14.00	9.63
1 month	17.13	14.50	9.75
3 months	15.00	14.00	9.75
Bank Holding Companies			
1 month	16.75	14.63	9.75
Dealer Placed:			
3 months	17.25	14.88	10.00
New Aa Corporate Utility Bond	14.50	14.50	9.75
Tax Exempt			
6 month Project Notes	7.50	7.00	5.20
12 month Project Notes	N/A	N/A	5.35
20 year AAA Bond	8.50	8.50	5.80

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Financial Markets

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**Economic Research &
Planning Division**

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Friday March 14, 1980

The current business expansion is celebrating its fifth birthday this month, but few economic forecasters are going to the party. Having written the expansion's obituary a year or more ago, they are understandably embarrassed. But the signs of imminent decline that so many pointed to last year now finally seem to be moving into place. Leading indicators are declining and have been for the length of time that typically precedes a recession, while the lagging indicators are rising, as they usually do before a recession; the coincident indicators, such as industrial production, are drifting sideways. The auto and housing industries, which are dependent on consumer discretionary spending, are weak, and the deliquency rate on consumer loans is rising. On the other hand, industries dependent on business capital spending such as machine tools are strong, as are the commodity producing industries such as copper. Again, these conditions are typical of those that exist near a peak in business activity.

The commodity markets clearly believe the recession is close. Most commodity prices are down sharply from their recent peaks. Gold has fallen to $530/oz. from $850, silver to $25/oz. from $45, and copper to $0.93/oz. from $1.45. Sugar is down to $0.19/lb. from $0.28. These declines also reflect a fading of the war psychology that was in the air following the invasion of Afghanistan. Some economists thought that increased military spending would keep this expansion going, much as it did in the late 1960s during the war in Vietnam. But few if any now think military spending will do the trick. Earlier, it had appeared that Congress was eager to boost military spending above the levels proposed by the Administration. Now, it appears the President will have to fight to keep Congress from reducing the 4% real increase in defense spending that he has proposed. And since military spending is only 5% of G.N.P., a 4% increase amounts to only 0.2% of G.N.P. This is hardly enough to push the economy around and could easily be offset by a nominal rise in the consumer savings rate, for instance.

But the key question is: When are the credit markets going to believe that the peak in economic activity is near? For the last two or three weeks, the credit markets have been fixated on speculation about the Administration's anti-inflation package. With the official announcement of the package, however, interest in it is going to fade. Very soon, the credit markets will once again turn their attention to the economic statistics; in particular, they will be looking for a decline in such coincident indicators as industrial production. This will provide confirmation that business activity and interest rates have peaked or are close to it. It is unlikely the markets will have to wait for more than a few months.

Gordon B. Pye

Irving Trust

Money Market Rates

	3/14/80 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	18.50%	17.75%	11.75%
Effective since	3/14/80		
Discount Rate at Federal Reserve Bank	13.00	13.00	9.50
Federal Funds	17.00	17.00	10.38
Repurchase Agreements	13.00	15.75	9.70
U.S. Treasury Issues - Yields			
Bills			
3 months	16.04	16.71	9.88
6 months	16.75	16.85	10.13
1 year	15.85	16.22	10.30
Coupons			
2 years	14.70	15.40	9.82
4 years	13.38	14.25	9.23
7 years	12.70	13.45	9.13
10 years	12.42	13.10	9.13
Long Bond	12.20	12.60	9.04
Negotiable Certificates of Deposit-Secondary Market			
1 month	18.00	17.25	10.00
3 months	18.25	17.75	10.23
6 months	18.50	18.00	10.55
1 year	17.50	17.00	10.70
Bankers' Acceptances			
1 month	17.80	17.25	9.98
3 months	18.10	17.80	10.17
6 months	18.50	18.50	10.58
Eurodollar Deposits			
1 month	18.50	18.25	10.44
2 months	19.13	18.75	10.63
3 months	19.13	18.88	10.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	15.00	17.00	9.75
1 month	16.50	17.13	9.88
3 months	15.00	15.00	9.90
Bank Holding Companies			
1 month	16.75	16.75	9.88
Dealer Placed:			
3 months	17.00	17.25	10.00
New Aa Corporate Utility Bond	14.50	14.50	9.80
Tax Exempt			
6 month Project Notes	7.25	7.50	5.40
12 month Project Notes	N/A	N/A	5.60
20 year AAA Bond	9.00	8.50	5.90

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Financial Markets

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Economic Research &
Planning Division

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21 1980

B 4750-1

Friday March 21, 1980

A sleeping giant awakened as the Federal Reserve began to exercise for the first time its long-dormant powers under the Credit Control Act of 1969. Monetary controls of a form hithertofore only a subject for speculation at academic conferences were suddenly in place. And even veteran Fed watchers by week's end were only beginning to grasp the dimensions of some of the precedents that are being established. Reserve requirements, which formerly have only been set on deposit liabilities, are now being applied to assets in the form of unsecured consumer credit and will affect not only banks, but also finance companies, department stores, money funds, and oil companies. In addition, the Fed is, for the first time, asking banks to hold their loan increases within a quantitatively specified guideline. Paul Volcker promised that the new controls would be removed as soon as possible, but the feeling remained that powers once exercised would be easier to use again.

It appears that some of the new controls could have a significant economic impact; the effect of some of the others is debatable. One of the potentially most significant actions is the limitation on loan growth. If the banks hold their loan growth to 6%-9%, a credit crunch could develop, unless the recession takes hold soon. True, over the last six months or so, loan demand has been relatively sluggish, but it is also fickle. Earlier, loans at the large weekly reporting banks had been rising at a 20% annual rate; if such a rate of increase were to occur again, it would quickly come into conflict with the new guidelines. The toughened marginal reserve requirement is also significant. With the base reduced, many more banks may now find additions to their managed liabilities subject to the marginal requirement, which has been increased from 8% to 10%; banks subject to the marginal requirement face a substantial increase in the marginal cost of funds. On a 90-day C.D., there is, in effect, an 18% reserve requirement; at current rate levels, the effective cost is raised about 400 basis points above the rate paid on the market.

On the other hand, many analysts think the controls on credit cards will be more notable as a nuisance than as an effective means of reducing consumer demand. Many card issuers were already trying to curb their use and to increase their pricing because the cards have been unprofitable. The marginal reserve requirement on card credit will simply nudge issuers a little more in a direction they were already going. Many analysts think the economic effect of the marginal reserve requirement on the money funds will also be nominal. Smaller investors will still find the funds attractive even if their return is reduced by the reserve requirement, while large investors who find their returns reduced will now bypass the funds and invest directly in many of the same instruments that the fund would have bought anyway.

Rates on the money market have settled back down since the terms of the anti-inflation package were announced. Fear of the unknown is always a powerful force in the markets, and the scramble for funds before the announcement was, in effect, a demand for insurance. Now, rates will depend more on the actual need for funds and the amount the Fed is willing to provide. If the recession takes hold in the next month or two, the announcement of the anti-inflation package may have marked this cycle's high water mark for short-term rates.

Gordon B. Pye

Irving Trust

Money Market Rates

	3/21/80 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	19.00%	18.50%	11.75%
Effective since	3/19/80		
Discount Rate at Federal Reserve Bank	13.00	13.00	9.50
Federal Funds	17.25	17.00	10.06
Repurchase Agreements	12.50	13.00	9.70
U.S. Treasury Issues - Yields			
Bills			
3 months	16.10	16.04	9.90
6 months	16.66	16.75	10.05
1 year	16.15	15.85	10.12
Coupons			
2 years	15.05	14.70	9.75
4 years	13.69	13.38	9.21
7 years	12.93	12.70	9.14
10 years	12.71	12.42	9.12
Long Bond	12.25	12.20	9.03
Negotiable Certificates of Deposit-Secondary Market			
1 month	17.50	18.00	9.95
3 months	18.00	18.25	10.13
6 months	18.10	18.50	10.40
1 year	17.50	17.50	10.60
Bankers' Acceptances			
1 month	17.60	17.80	9.85
3 months	18.00	18.10	9.93
6 months	18.20	18.50	9.95
Eurodollar Deposits			
1 month	18.00	18.50	10.31
2 months	18.69	19.13	10.44
3 months	18.94	19.13	10.56
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	6.00	15.00	6.00
1 month	16.25	16.50	9.75
3 months	15.00	15.00	9.75
Bank Holding Companies			
1 month	16.50	16.75	9.75
Dealer Placed:			
3 months	16.88	17.00	9.90
New Aa Corporate Utility Bond	14.15	14.50	9.85
Tax Exempt			
6 month Project Notes	7.20	7.25	5.15
12 month Project Notes	N/A	N/A	5.50
20 year AAA Bond	9.10	9.00	5.85

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Financial Markets

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Economic Research &
Planning Division

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8 1980

Friday March 28, 1980

Signs of recession are beginning to spread from the equity and commodity markets to interest rates. Many stock and commodity prices are now off sharply from their peaks, but interest rates have been resisting this trend. This week, however, Treasury Bill rates began to fall in response to further weakness in stocks and commodities. It is not surprising that a decline in equities and commodities has preceded a decline in interest rates. Both stock prices and commodity prices are components of the composite index of leading indicators compiled by the Commerce Department. The prime rate, on the other hand, is a component of the index of lagging indicators. Thus a peak in stock and commodity prices typically precedes a peak in interest rates, as it has this time.

The Federal Reserve's new credit restraints should add to the downward pressure on rates. Not only will these restraints tend to hasten a downturn in the economy, but they will also reduce the demand for funds. Banks that must restrict their loans because of the new program will sell fewer C.D.'s. This will reduce the demand for funds and tend to lower interest rates. It is true that some of the reduction in sale of C.D.'s will be offset by increased direct sale of commercial paper by corporations that are denied bank loans. But smaller firms and poorer credits do not have access to the commercial paper market and will not be able to circumvent the restrictions in this way. One implication of this analysis is that the Fed's new program discriminates against small firms and weaker credits and in favor of large firms that have access to the commercial paper market. Another implication is a narrowing in the spread between the rates on commercial paper and bank C.D.'s as banks sell fewer C.D.'s and corporations sell more commercial paper, pushing up the rate on paper toward that on certificates.

Another spread relationship likely to change as a result of the new program is that between the rate on Fed funds and C.D.'s. More banks are now subject to the marginal reserve requirement because of the reduction in the base to which the marginal requirement is applied. Since Fed funds purchased from members are exempt from the marginal requirement, these funds are now going to look more attractive to more banks. This should push their rate up relative to that on C.D.'s for which the marginal requirement applies. Also, the rate on Fed funds will tend to rise now relative to the rate on C.D.'s because C.D.'s are of longer maturity. It is becoming increasingly clear that rates have peaked or soon will. In this case, rates are headed down and it is desirable to fund as short as possible. This gives another advantage to Fed funds, which, being overnight money, are the shortest maturity available. It is probably not an aberration that in recent days Fed funds have tended to trade up relative to the rates on C.D.'s.

Gordon B. Pye

Irving Trust

Market Yields

	3/28/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(noon)		
Short-term loans to substantial depositors with highest credit rating	19.50%	19.00%	11.75%
Effective since	3/19/80		
Discount Rate at Federal Reserve Bank	13.00/16.00	13.00	9.50
Federal Funds	19.50	17.25	10.01
Repurchase Agreements	13.50	12.50	9.00
U.S. Treasury Issues			
Bills			
3 months	15.25	16.10	9.75
6 months	16.33	16.66	10.00
1 year	15.89	16.15	10.10
Coupons			
2 years	14.85	15.05	9.70
4 years	13.85	13.69	9.20
7 years	12.95	12.93	9.13
10 years	12.80	12.71	9.08
Long Bond	12.40	12.25	9.00
Negotiable Certificates of Deposit-Secondary Market			
1 month	17.25	17.50	9.80
3 months	18.15	18.00	9.95
6 months	18.45	18.10	10.30
1 year	17.25	17.50	10.60
Banker's Acceptances			
1 month	17.10	17.60	9.72
3 months	18.10	18.00	9.82
6 months	18.30	18.20	10.24
Eurodollar Deposits			
1 month	18.50	18.00	10.31
2 months	19.13	18.69	10.44
3 months	19.44	18.94	10.50
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	15.50	6.00	9.00
1 month	16.75	16.25	9.50
3 months	15.00	15.00	9.63
Bank Holding Companies			
1 month	16.50	16.50	9.63
Dealer Placed:			
3 months	17.25	16.88	9.75
New AA Corporate Utility Bond	14.25	14.15	9.80
Tax Exempt			
6 month Project Notes	8.75	7.20	5.20
1 year AAA Bond	8.00	N/A	N/A
5 year AAA Bond	8.10	N/A	N/A
20 year AAA Bond	9.10	9.10	5.85

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New York, NY 10015

**Economic Research &
Planning Division**

RECEIVED
0 1980

B 4750-1

Friday April 4, 1980

Long-term rates are easing while short-term markets remain tight. Long-term markets, which reflect expectations about the future course of interest rates, are easing because of increasing evidence that a recession is here. The short-term markets, on the other hand, reflect the current supply and demand for credit, and the recession has clearly not yet taken hold sufficiently to ease credit demands.

The recession may already have begun, as declines are now visible in the coincident indicators. The composite coincident indicators compiled by the Commerce Department declined slightly in February. In March, employment, as measured by both the household and payroll surveys, also declined. Particularly significant was the 140,000 decline in the payroll figure.

Short-term interest rates have soared 500 basis points in less than two months, and analysts are trying to calculate the impact this unprecedentedly sharp increase will have on corporate profits. For many corporations, the direct effect will not be large relative to other factors because interest on debt represents a relatively small part of overall costs. On average, interest expense for all corporations accounts for only about 5% of total cost. Moreover, for many firms, a good portion of interest expense is at fixed rates and has, therefore, been unaffected by the recent increases. Many companies will experience the most significant impact of high interest rates indirectly, through slowing sales. High rates, for instance, have already contributed to the decline in residential construction, which is squeezing the profits of firms in the housing industry.

For financial corporations, on the other hand, interest expense accounts for a much higher percentage of their total cost--more than 50% for banks, thrifts, and finance companies. Profits for these institutions are, therefore, potentially more vulnerable than are those for businesses generally to the direct effect of a rise in interest rates. But the revenues of financial corporations also rise with rising interest rates, and this tends to offset the increase in their interest expense. Thus, a financial corporation's profits may either go up or down when interest rates increase; the key is the balance between its floating rate assets and floating rate liabilities, because only revenues and costs on these items are quickly affected by a change in interest rates. If the amount of floating rate assets exceeds the amount of floating rate liabilities, profits will tend to increase when interest rates rise. On the other hand, if floating rate liabilities exceed floating rate assets, profits will tend to decline when rates increase. The magnitude of this rate effect can be quite significant. Take a hypothetical situation in which floating rate liabilities exceed floating rate assets for an institution by an amount equal to 10% of its total assets. A 500 basis point rise in rates such as we have just experienced would translate into a 0.5% decline in before-tax earnings on total assets. The recent sharp rise in interest rates means that the rate factor will be an important component of the profit change registered by many financial corporations in the current environemnt. Some institutions will benefit and others will be hurt depending on their own individual balance between floating rate assets and liabilities.

Gordon B. Pye

Irving Trust

Market Yields

	4/4/80 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	20.00%	19.50%	11.75%
Effective since	4/3/80		
Discount Rate at Federal Reserve Bank	13.00/16.00	13.00/16.00	9.50
Federal Funds	20.50	19.50	10.00
Repurchase Agreements	16.25	13.50	9.95
U.S. Treasury Issues			
Bills			
3 months	15.60	15.25	9.81
6 months	15.98	16.33	9.95
1 year	15.51	15.89	9.95
Coupons			
2 years	14.44	14.85	9.63
4 years	13.20	13.85	9.14
7 years	12.57	12.95	9.04
10 years	12.47	12.80	9.03
Long Bond	12.20	12.40	8.97
Negotiable Certificates of Deposit-Secondary Market			
1 month	17.50	17.25	10.00
3 months	18.00	18.15	10.10
6 months	18.30	18.45	10.30
1 year	N/A	17.25	10.45
Banker's Acceptances			
1 month	17.40	17.10	10.03
3 months	18.30	18.10	10.20
6 months	18.55	18.30	10.47
Eurodollar Deposits			
1 month	19.00	18.50	10.19
2 months	19.38	19.13	10.25
3 months	19.63	19.44	10.38
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	16.75	15.50	9.63
1 month	17.38	16.75	9.88
3 months	15.00	15.00	9.63
Bank Holding Companies			
1 month	17.50	16.50	9.75
Dealer Placed:			
3 months	17.00	17.25	10.00
New AA Corporate Utility Bond	15.25	14.25	9.80
Tax Exempt			
6 month Project Notes	8.60	8.75	5.15
1 year AAA Bond	8.00	8.00	N/A
5 year AAA Bond	8.10	8.10	N/A
20 year AAA Bond	9.44	9.10	5.80

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Financial Markets

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Economic Research &
Planning Division

B 4750-1

Friday April 11, 1980

As conviction that the recession is here spreads, interest rates are dropping. The latest evidence that the recession has started is the report that retail sales were off sharply in February and March with widespread declines. This, together with the significant decline in March employment reported earlier, likely means the recession is under way. Attention is now focused on the soon-to-be-released figures for March industrial production. Even if no decline is evident in March, a drop in April seems certain; reductions are already scheduled in automotive assemblies, and weakness in construction materials is mounting. A committee of the National Bureau of Economic Research is responsible for dating the official beginning and end of recessions. Our bet is that, when all the data are in, the bureau will announce that the recession began in March.

Portfolio managers are understandably leery about accepting as fact the arrival of the recession, with its accompanying peak in rates. They've been burned too many times before. Last year, they repeatedly lengthened their portfolios in response to talk of recession, only to find in ensuing months that there was no recession, that even more attractive yields were available, and that they had even larger losses in their bond positions. Thus far, this rally has been largely a traders' market. Further strong improvement still lies ahead as the recession's credibility grows with investment managers. There's still plenty of time to make some money in what promises to be a major market reversal. Of course, it won't be a one-way street as those inevitable conflicting bits of economic evidence turn up from time to time to send rates temporarily up again.

Attention will soon turn to the recession's severity and duration. Our view is that the economic decline will bottom out near year-end. We expect this recession to be less severe than the last one but somewhat more severe than average in the postwar period. Specifically, we expect the recession to be about half as severe as that in 1974-1975. Real GNP will drop about 2.5% peak to trough versus a 5.7% drop the last time. The unemployment rate will rise 2%, from 5.75% to 7.75%, versus a 4% rise in 1974-1975, from 5% to 9%. We continue to expect this recession to be moderate primarily because inventories remain under control. Businessmen still remember only too well the problems of excessive inventory that they faced in 1974. And the widespread forecast of recession this time, though premature, has remained creditable because the economy has been sluggish, even though it did not decline as so many had expected. Also, high interest rates have been a spur to keeping inventories tight. Whenever a recession begins, businesses find that their inventories are too high. But this time, inventories will be less troublesome than usual. The main problem in bringing the recession to an end will not be liquidating excessive inventories but working off consumer debt and building up real personal income through a reduction in inflation. This will all take time--maybe even longer than we expect. In any case, the important point at the moment is that the regenerative processes that occur in a recession are starting to get under way.

Gordon B. Pye

Irving Trust

Money Market Rates

	4/11/80 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	20.00%	20.00%	11.75%
Effective since	4/3/80		
Discount Rate at Federal Reserve Bank	13.00/16.00	13.00/16.00	9.50
Federal Funds	19.00	20.50	10.00
Repurchase Agreements	18.00	16.25	9.80
U.S. Treasury Issues			
Bills			
3 months	14.50	15.60	10.08
6 months	14.90	15.98	10.28
1 year	14.10	15.51	10.19
Coupons			
2 years	13.12	14.44	9.85
4 years	12.25	13.20	9.34
7 years	11.70	12.57	9.30
10 years	11.70	12.47	9.20
Long Bond	11.47	12.20	9.09
Negotiable Certificates of Deposit-Secondary Market			
1 month	17.55	17.50	10.10
3 months	17.50	18.00	10.30
6 months	17.10	18.30	10.55
1 year	N/A	N/A	10.65
Banker's Acceptances			
1 month	17.40	17.40	10.23
3 months	17.45	18.30	10.41
6 months	17.15	18.55	10.69
Eurodollar Deposits			
1 month	18.75	19.00	10.50
2 months	18.81	19.38	10.69
3 months	18.81	19.63	10.88
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	12.00	16.75	10.00
1 month	17.25	17.38	10.05
3 months	15.00	15.00	9.75
Bank Holding Companies			
1 month	17.75	17.50	10.00
Dealer Placed:			
3 months	16.50	17.00	10.10
New AA Corporate Utility Bond	14.40	15.25	9.90
Tax Exempt			
6 month Project Notes	7.25	8.60	5.20
1 year AAA Bond	7.00	8.00	N/A
5 year AAA Bond	7.10	8.10	N/A
20 year AAA Bond	8.00	9.44	5.90

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6/2/80 B 4750-1

Financial Markets

Irving Trust

Irving Trust Company
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New York, NY 10015

Economic Research &
Planning Division

Friday April 18, 1980

"Yes, but--" was the message from the financial markets, as an extraordinarily hectic week drew to a close. Yes, the long-awaited cyclical peak in interest rates has passed (market consensus on that point reached near-unanimity this week); and yes, the U.S. economy has moved into recession, indicating that a major cyclical downtrend in rates has begun and will continue. But--and here the focus shifts from the medium term to the immediate future--cyclical trends are seldom smooth, and many market watchers feel that swings around the underlying downtrend may be sharper this time round than they have been in the past.

Fixed income markets--most spectacularly the governments sector--boomed ahead this week, despite a widely held suspicion that a reversal is bound to take place in the not-too-distant future. Markets were hesitant early in the week, but a massive rally exploded on Wednesday, as a prime rate cut by a major New York City bank and a statement by a noted money market economist put the seal on the market's assumption that interest rates have peaked.

Wednesday's gains were notable, to say the least. The U.S. Treasury long bond (due 2010) rose in price from 102 (yielding 11.51%) to 108 (yielding 10.80%); on February 28, this issue was priced at 90.625 to yield 13.00%, and yields on other Treasury issues skidded by up to 100 basis points. Thursday saw some consolidation, but prices began to rise again on Friday after the Federal Reserve took action which could point to policy easing. Price movements in corporate and municipal markets were less dramatic (trading remains very thin); but for the first time in weeks, some new issues were pushed ahead of schedule, not delayed.

Now, the question is how long can the rally last--not the cyclical rate decline that is in place on economic fundamentals, but the specific market reaction that has pulled up prices so sharply in recent weeks. That reaction has been so sharp as to create a technically overbought condition, leaving the market vulnerable to a big correction. If that correction is to be avoided, the market needs a continuing diet of good news--more signs of a softening economy and softening credit demands, more signs of potential inflation relief, and (most important) more signs that the Fed will not stand in the way of downward movements in market rates.

In these circumstances, markets will be particularly sensitive to news items over the next few weeks, and rates could move sharply. It is too soon to expect statistical signs of easing inflationary pressures, and a good deal of recessionary economic news is assumed in current market levels. Thus two factors will be of key importance: money supply data (an indicator of credit demands), and Federal Reserve actions. The widely expected April money bulge has not yet appeared; that could come this afternoon or next Friday. As to the Fed, markets will follow very closely the balance it strikes between appropriate accommodation to interest rate declines on the one hand, and inflationary and foreign exchange market considerations on the other.

Anne Parker Mills

Irving Trust

Market Yields

	4/18/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(noon)		
Short-term loans to substantial depositors			
with highest credit rating	19.50%	20.00%	11.75%
Effective since	4/18/80		
Discount Rate at Federal Reserve Bank	13.00/16.00	13.00/16.00	9.50
Federal Funds	18.50	19.00	10.00
Repurchase Agreements	16.00	18.00	9.45
U.S. Treasury Issues			
Bills			
3 months	14.20	14.50	9.65
6 months	13.70	14.90	9.98
1 year	13.00	14.10	9.96
Coupons			
2 years	12.40	13.12	9.75
4 years	11.90	12.25	9.27
7 years	11.26	11.70	9.18
10 years	11.33	11.70	9.16
Long Bond	11.16	11.47	9.07
Negotiable Certificates of Deposit-Secondary Market			
1 month	16.75	17.55	9.80
3 months	16.30	17.50	9.90
6 months	17.65	17.10	10.19
1 year	N/A	N/A	10.25
Banker's Acceptances			
1 month	16.60	17.40	9.77
3 months	16.55	17.45	9.99
6 months	15.40	17.15	10.25
Eurodollar Deposits			
1 month	17.69	18.75	10.31
2 months	17.63	18.81	10.38
3 months	17.44	18.81	10.50
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	12.00	12.00	6.00
1 month	15.00	17.25	9.38
3 months	13.00	15.00	9.63
Bank Holding Companies			
1 month	15.75	17.75	9.25
Dealer Placed:			
3 months	15.80	16.50	9.63
New AA Corporate Utility Bond	14.25	14.40	9.85
Tax Exempt			
6 month Project Notes	6.75	7.25	5.20
1 year AAA Bond	6.50	7.00	N/A
5 year AAA Bond	6.50	7.10	N/A
20 year AAA Bond	7.30	8.00	5.85

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Financial Markets

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**Economic Research &
Planning Division**

Friday April 25, 1980

Political reverses abroad, interest rate choppiness at home--all told, an unsettled week in U.S. financial markets. Different markets showed different patterns over the course of the week, reflecting different demand/supply balances and the fact that the startling rally of recent weeks left some markets lagging after others. By Friday, however, a general trend was developing--lower prices and higher yields, especially for longer maturities. This is no surprise, given the strength of the recent rally. Market participants have begun to wonder if the rally did not push prices up too far too fast, and a period of consolidation may have set in.

The failed U.S. rescue attempt in Iran added to market nervousness, but the upward trend in rates was already established, and markets showed little overt reaction to the news. In the government market, which is setting the pace, rates hit a low just after Wednesday's one-year bill auction pointed to some buyer resistance. Ninety-day bills, at a Wednesday low of 11.60% (discount basis), rose to 11.96 by Thursday's close. In price terms, longer-maturity governments moved more sharply; the long bond (due 2010) fell from last week's high of 108 to 104.5 by Friday noon.

In the short-term money markets, most rates also tended up late in the week, following earlier sharp declines. There was a key exception; two major banks cut the prime lending rate to 19%. This lag is typical, and further cuts in prime rates can be expected even if other short-term rates stabilize or move temporarily higher. The prime rate also lagged when rates were rising.

"Too far too fast" was also the mood in corporate and municipal markets, where rates followed the government market up, with particular pressure on the long end. The Bond Buyer Index of municipal yields rose from 7.89% to 8.11%, after last week's 118 basis point drop--something of an overstatement of the deterioration this week, given the Index's heavy weighting of long issues. In the corporate market, rates also moved up, but the keynote of the week was the massive increase in expected supply. With rates down, borrowers are flocking to market, and the 30-day supply is moving toward $2 billion. Normally, recession years see high levels of new corporate offerings; 1980 could top the previous peak.

For the broad spectrum of rates, some backup was very probable, given the spectacular drops of recent weeks. Thus far, the backup has been modest, largely because of the Federal Reserve's apparent (and unexpected) willingness to tolerate market rate drops--many assume an easing in Fed policy, given the fact that Federal funds were allowed to trade down to less than 16% before the Fed put on the brakes. Even so, the decline in other short-term rates has discounted everything the Fed has done to date and a bit more. If Federal funds have arrived at a stopping place (which some suspect, given the recent free-fall and mounting pressure on the dollar abroad), other short-term rates may have some further upward momentum. Given the rapid jump in new supply, the bond markets would be vulnerable to repercussions.

Anne Parker Mills

Irving Trust

Market Yields

	4/25/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(noon)		
Short-term loans to substantial depositors with highest credit rating	19.50%	19.50%	11.75%
Effective since	4/18/80		
Discount Rate at Federal Reserve Bank	13.00/16.00	13.00/16.00	9.50
Federal Funds	15.88	18.50	10.13
Repurchase Agreements	14.50	16.00	8.75
U.S. Treasury Issues			
Bills			
3 months	12.50	14.20	9.80
6 months	12.60	13.70	10.20
1 year	11.55	13.00	10.40
Coupons			
2 years	11.50	12.40	9.84
4 years	11.34	11.90	9.34
7 years	11.11	11.26	9.26
10 years	11.03	11.33	9.30
Long Bond	11.22	11.16	9.20
Negotiable Certificates of Deposit-Secondary Market			
1 month	14.65	16.75	9.90
3 months	14.40	16.30	10.25
6 months	14.25	17.65	10.53
1 year	N/A	N/A	10.65
Banker's Acceptances			
1 month	14.30	16.60	10.03
3 months	14.35	16.55	10.30
6 months	14.25	15.40	10.63
Eurodollar Deposits			
1 month	16.13	17.69	10.50
2 months	16.31	17.63	10.69
3 months	16.38	17.44	10.88
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.00	12.00	9.00
1 month	12.00	15.00	9.38
3 months	12.00	13.00	9.50
Bank Holding Companies			
1 month	13.75	15.75	9.38
Dealer Placed:			
3 months	12.00	15.80	9.63
New AA Corporate Utility Bond	14.50	14.25	9.95
Tax Exempt			
6 month Project Notes	6.75	6.75	5.20
1 year AAA Bond	6.40	6.50	N/A
5 year AAA Bond	6.50	6.50	N/A
20 year AAA Bond	7.50	7.30	5.85

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Financial Markets

Irving Trust

Irving Trust Company
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Economic Research &
Planning Division

Friday May 2, 1980

After last week's brief pause, credit markets swung back to the upside; the April rally seems to be forging ahead into May. Rates dropped sharply across the board, with the long end of the market particularly firm as heavy new supply was absorbed amid steady price gains. Optimism stemmed from a powerful combination of factors. More grim economic news led many observers to deepen recession forecasts; money and credit aggregates continued their sharp unexpected drops; and retail demand swelled as institutions stepped up buying. The only potential fly in the ointment--and the big unknown at present--is the attitude of the Federal Reserve. This week, Fed funds swung between 13% and 17%, excluding Wednesday. No one really knows how to interpret this, an uncertainty that leaves some market participants rather wary.

In the government market, announcement of next week's $7.5 billion refunding (a bit more than expected) was well received; many investors are thought to have been waiting for the announcement before buying. Rates fell in all maturities, with the bill market getting a special boost from almost $2.5 billion in Fed purchases for foreigners this week. Short-term money markets were also buoyant, and C.D. rates fell even faster than bills. More big banks cut their prime lending rates; most are now at 18.5%.

In the corporate bond markets, the flood of new issues continued, and continued to be very well received. The rush reflects pent-up borrowing needs and attractive current rates, plus the desire to get out of the way of next week's refunding. The week's corporate calendar of about $1.5 billion (close to a record) was easily absorbed--prices on average rose 3.5 points, and some supply shortage appeared late in the week. Municipals also performed well. The Bond Buyer Index fell to 7.96% from 8.11% as retail demand appeared in volume, and the recent divergence between shorter maturities (strong) and longer maturities (weak) was fading rapidly.

Economic data over the past month have signaled recession; now, the data may be signaling a worse recession than originally expected. This week saw more grim reports: auto output down again, March leading indicators down 2.6%, and March construction spending down 5.8%. The negative series was capped with Friday's report of 7.0% April unemployment, up from 6.2% in March and much higher than expected. All of this means recession, and as recessionary expectations get worse, inflationary expectations get better. Not too much weight should be given to this week's report of a 4.5% April drop in farm prices, but a major revision of inflationary expectations does seem to be contributing to the current rally.

As noted above, the enigma now is Fed policy, as revealed (or not revealed) through variations in the Fed funds rate. Since last October's switch in policy targets, the funds rate has been an unreliable policy guide, but it is still watched as the best available current indicator. Uncertainty stems from the fact that swings in funds could stem from supply (Fed policy, measured by Fed willingness to provide liquidity) or from demand for credit. Since the market does not know at present what combination of supply and demand factors produces a given movement in funds, the level of uncertainty on Fed policy--and policy prospects--is uncomfortably high.

Anne Parker Mills

Irving Trust

Market Yields

	5/2/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(noon)		
Short-term loans to substantial depositors with highest credit rating	18.50%	19.50%	11.75%
Effective since	5/1/80		
Discount Rate at Federal Reserve Bank	13.00/16.00	13.00/16.00	9.50
Federal Funds	14.50	15.88	10.22
Repurchase Agreements	11.75	14.50	9.00
U.S. Treasury Issues			
Bills			
3 months	10.65	12.50	10.02
6 months	10.92	12.60	10.27
1 year	10.75	11.55	10.30
Coupons			
2 years	10.56	11.50	9.91
4 years	10.62	11.34	9.36
7 years	10.56	11.11	9.34
10 years	10.52	11.03	9.37
Long Bond	10.69	11.22	9.29
Negotiable Certificates of Deposit-Secondary Market			
1 month	12.55	14.65	10.00
3 months	12.55	14.40	10.35
6 months	12.45	14.25	10.70
1 year	11.60	N/A	10.80
Banker's Acceptances			
1 month	12.32	14.30	9.98
3 months	12.42	14.35	10.30
6 months	12.50	14.25	10.64
Eurodollar Deposits			
1 month	14.00	16.13	10.56
2 months	14.13	16.31	10.81
3 months	14.13	16.38	10.88
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	11.00	10.00	9.50
1 month	11.25	12.00	9.75
3 months	10.75	12.00	9.63
Bank Holding Companies			
1 month	12.00	13.75	9.75
Dealer Placed:			
3 months	12.00	12.00	9.88
New AA Corporate Utility Bond	13.70	14.50	10.20
Tax Exempt			
6 month Project Notes	6.25	6.75	5.20
1 year AAA Bond	6.05	6.40	N/A
5 year AAA Bond	6.10	6.50	N/A
20 year AAA Bond	7.30	7.50	5.85

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Financial Markets

Irving Trust

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**Economic Research &
Planning Division**

Friday May 9, 1980

Much talk about producer prices, much action on rapidly shifting perceptions of Federal Reserve policy, heavy new supply and hesitant demand--all in all, it was a confusing week; and by Friday morning, dealers were wondering which way to jump next. It may be too soon to say that the five weeks' mega-rally has finally hit the inevitable snag. Fed moves, however, are suddenly flashing warning signals, and at least a pause in the recent rate free-fall seems to be taking shape.

Early in the week, the rally forged ahead as rates dropped sharply in the face of significant new supply (the Treasury refunding, a big corporate calendar, a jump in C.D. writing activity). In the government sector rates fell across the board--90-day bills, 10.65% last Friday, traded as low as 9.10%--and other markets kept the pace. Some of the euphoria may have been due to anticipation of a sharp drop in the producer price inflation rate; this was confirmed with Friday's report of a 0.5% April rise (vs. 1.4% in March, and in the middle of the expected range).

The real engine of this week's early advance, however, seems to have been a perceived easing in Fed policy. Last Friday, the central bank provided liquidity to the system when Fed funds were trading at 14.625%, and the Fed seemed willing to tolerate a funds rate of 11%. This implied that the former 13%-20% band had been moved lower in a policy easing, a possibility that seemed even more likely with Wednesday's removal of the three percentage point surcharge on the discount rate. Markets immediately began searching for a new lower limit, and rates on some instruments were marked down to levels that would match a funds rate of less than 10%.

That, it seems, was at last too much too soon--the funds rate does not appear to be moving back into single digits just yet. On Thursday, the Fed moved to drain liquidity when funds were trading at 10.375%. This unexpected action caught the markets in a somewhat uncomfortable position; supply pressures are heavy; dealer inventories are high; and retail demand is a bit skittish, with many investors looking for reasons to take profits. Once the expectation of more near-term drops in the funds rate was challenged, it began to look as if markets had run ahead of themselves, and prices gave up a good portion of the week's gains, particularly in intermediate and longer maturities.

This was hardly a major correction--the markets ended up with substantial net gain for the week--but some correction seems inevitable (if rates kept falling at the April pace, Fed funds would hit zero sometime in mid-June). Current price levels incorporate very bullish expectations on the severity of the recession, the drop in inflation, and the trend of Fed policy; thus any interruption in a steady diet of good news is likely to produce a certain degree of indigestion.

The key variable at this point (aside from the funds rate, of course) is the money supply. The surprising speed with which the Fed let rates drop after April 1 was probably due in part to sharp drops in the seasonally adjusted money supply numbers. As has been widely mentioned, the nonseasonally adjusted numbers have been rising rapidly, and the adjustment program has been disputed in the past. This means that money supply data could show sharp volatility--up as well as down--in the coming months; thus the funds rate may continue to be volatile as well.

Anne Parker Mills

Irving Trust

Market Yields

	5/9/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(noon)		
Short-term loans to substantial depositors with highest credit rating	17.50	18.50%	11.75%
Effective since	5/7/80		
Discount Rate at Federal Reserve Bank	13.00	13.00/16.00	9.50
Federal Funds	10.63	14.50	10.23
Repurchase Agreements	8.25	11.75	9.85
U.S. Treasury Issues			
Bills			
3 months	9.22	10.65	9.95
6 months	9.56	10.92	10.20
1 year	9.89	10.75	10.18
Coupons			
2 years	9.79	10.56	9.88
4 years	9.95	10.62	9.33
7 years	10.37	10.56	9.32
10 years	10.41	10.52	9.34
Long Bond	10.44	10.69	9.25
Negotiable Certificates of Deposit-Secondary Market			
1 month	10.25	12.55	10.05
3 months	10.25	12.55	10.25
6 months	10.20	12.45	10.60
1 year	10.20	11.60	10.70
Banker's Acceptances			
1 month	9.95	12.32	9.98
3 months	10.00	12.42	10.20
6 months	10.10	12.50	10.60
Eurodollar Deposits			
1 month	10.88	14.00	10.44
2 months	11.38	14.13	10.69
3 months	11.50	14.13	10.38
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	7.00	11.00	9.75
1 month	9.00	11.25	9.90
3 months	9.25	10.75	9.75
Bank Holding Companies			
1 month	9.38	12.00	9.95
Dealer Placed:			
3 months	9.50	12.00	10.00
New AA Corporate Utility Bond	12.00	13.70	10.10
Tax Exempt			
6 month Project Notes	5.25	6.25	5.10
1 year AAA Bond	5.40	6.05	N/A
5 year AAA Bond	5.35	6.10	N/A
20 year AAA Bond	6.10	7.30	5.90

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Financial Markets

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**Economic Research &
Planning Division**

Friday May 16, 1980

After bringing many short-term rates to close to half of their early April levels, the great six-week credit market rally finally halted this week. Last week, the rally hesitated as Fed actions implied resistance to more drops in interest rates. This week, hesitation turned to a full stop as Fed statements confirmed a more resistant attitude than has been manifest in recent weeks.

To quote Mr. Volcker's Thursday Congressional testimony: "I would expect to see it [money supply] move higher." This shouldn't have surprised the markets. Fed statements have stressed that recent money supply drops (in April, M1A fell at an annual rate of 18.5%) were probably due in part to technical and seasonal factors (tax payments), implying that some of the decline was likely to be reversed.

The implication for the Federal funds rate, however--and thus for the general level of interest rates--sent prices sharply lower on Thursday. Funds peaked at 19.96% on April 3 and fell to 10.5% before the Fed moved to steady the rate. The funds drop and the credit market rally were due more to declining credit demand than to Fed supply expansiveness, but the Fed did allow demand factors to pull down rates with little resistance. If money growth turns positive (reversal after April's drop could be sharp), the Fed will presumably be less willing to supply liquidity than it was when money supply was falling rapidly. That means a steadying of the Fed funds rate (some observers suggest 10.5% to 13%), a sharp change from the recent environment of steady drops in funds.

Before the Volcker statement, the government market had begun to back up on a rise in financing costs. Early this week, short-term rates had continued lower; T-bills particularly showed sharp gains on foreign buying and limited supplies of other short-term paper. Inventories jumped Thursday, however (dealers took delivery of securities auctioned in last week's refunding), and financing costs rose to 10.75% from 7% on Wednesday. Friday's report of a 1.9% April industrial production drop was badly received--some had forecast 5%--and fears that a big jump in money supply would be reported Friday afternoon compounded tensions.

The net result was a sharp rise in rates--90-day Treasury bills rose from a low of 8.12% on Wednesday to 9.10% Friday morning; other short rates also rose. In long-term markets, price erosion had set in early in the week and intensified later on; the 30-year Treasury bonds auctioned last week at 98.875 fell to 95.625 by Friday morning. Corporate bond prices also dropped, though a heavy new supply continued to be readily absorbed. In the municipal market, prices fell, and some problems with supply absorption appeared--limited retail demand, heavy inventory, and a $2.5 billion 30-day calendar did not add up to positive news.

For all markets, the key to near-term prospects lies with the Federal Reserve. Recession is already heavily factored into current price levels; thus more bad economic news will not reignite the rally. Only further Fed easing could do that, and further Fed easing does not look likely at the moment. Rallies that stop tend to reverse; thus more temporary rate increases may be on the way unless the Fed steps into the market with more aggressive policy actions.

Anne Parker Mills

Irving Trust

Market Yields

	5/16/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(noon)		
Short-term loans to substantial depositors with highest credit rating	16.50	17.50	11.75
Effective since	5/16/80		
Discount Rate at Federal Reserve Bank	13.00	13.00	9.50
Federal Funds	11.63	10.63	10.24
Repurchase Agreements	10.25	8.25	9.90
U.S. Treasury Issues			
Bills			
3 months	9.30	9.22	9.93
6 months	9.42	9.56	10.10
1 year	9.58	9.89	10.00
Coupons			
2 years	9.64	9.79	9.71
4 years	9.84	9.95	9.18
7 years	10.20	10.37	9.20
10 years	10.30	10.41	9.22
Long Bond	10.47	10.44	9.20
Negotiable Certificates of Deposit-Secondary Market			
1 month	10.25	10.25	10.05
3 months	10.25	10.25	10.25
6 months	10.10	10.20	10.47
1 year	10.20	10.20	10.55
Banker's Acceptances			
1 month	9.80	9.95	9.93
3 months	9.95	10.00	10.16
6 months	10.10	10.10	10.45
Eurodollar Deposits			
1 month	10.38	10.88	10.38
2 months	10.69	11.38	10.50
3 months	11.13	11.50	10.63
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.25	7.00	9.88
1 month	9.00	9.00	9.90
3 months	8.88	9.25	9.75
Bank Holding Companies			
1 month	9.50	9.38	9.95
Dealer Placed:			
3 months	9.50	9.50	9.98
New AA Corporate Utility Bond	11.85	12.00	10.00
Tax Exempt			
6 month Project Notes	5.50	5.25	4.90
1 year AAA Bond	5.40	5.40	N/A
5 year AAA Bond	5.70	5.35	N/A
20 year AAA Bond	6.90	6.10	5.90

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Financial Markets

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**Economic Research &
Planning Division**

Friday May 23, 1980

A double-barreled easing by the Fed, a sharp swing back to big price gains and interest rate drops in credit markets--all told, a busy week. Early on, last week's price erosion continued, but this reversed when Tuesday's Federal Open Market Committee meeting was followed by an emphatic drop in Fed funds, which were allowed to fall to 9.25% before the Federal Reserve intervened.

Rates tumbled on this easing move, then dropped again after Thursday evening's announcement of Step Two in the dismantling of the Federal Reserve's March 14 credit control program. The outlines of the program remain, but several key elements were relaxed--noninterest-bearing special deposits on new consumer loans and increases in money market fund issuance were cut from 15% to 7.5%, the base on reserve requirements on managed liabilities was increased and the requirement cut from 10% to 5%, and bank credit growth guidelines were eased.

The Fed's vigorous easing was a surprise to some observers (including this one) who had argued that the sharp surge in money growth would lead the central bank to encourage an interest rate plateau. Instead, the Fed seems to be focusing on the continuing sharp deterioration in economic activity and on the improving inflation outlook. This week saw report of a 4.2% April drop in durable goods orders, the smallest nominal personal income gain in five years, and an April rise in the savings rate to 4.2%, from 3.4% in December. April's consumer price inflation number, in contrast, was good news--the 0.9% gain was the smallest rise in over a year. With the recession deepening more rapidly than expected and inflation easing off, some shift in Fed priorities may be taking place.

Swings in Treasury bill rates gave a clear reading of the sharp shift in market mood. Rates in Monday's regular week auction rose for the first time in seven weeks, with 13-week bills at 8.95%, from 8.60% in last week's auction, and 8.12% in interauction secondary trading. By Friday, however, 13-week bills were down to 7.50%. Other short-term rates moved with bills; prime rate drops accelerated (most big banks are now at 14.5%) with cuts in marginal reserve requirements.

The discount rate (still at 13%) has been left high and dry, and many look to a cut very soon. Foreign exchange market considerations could be delaying this, since forex markets are traditionally very sensitive to discount rate changes. With the latest policy easing, however, the Federal Reserve seems to be shifting to a slightly more activist approach to dollar support in forex markets, a stance that could cushion repercussions on the dollar of a discount rate cut.

Longer-term markets rallied as well, with intermediates particularly strong--rates are low enough to bring borrowers to market, but uncertainty is still high enough to make five-to-ten year maturities attractive, given the return to a positive yield curve. The corporate market was especially buoyant, cheerfully absorbing record new supply despite the prospect of a June calendar that could well exceed May's record. Municipals were less positive, with the Bond Buyer Index (which is weighted to the long end) up 30 basis points over the week. This reflected hesitant retail demand and oversupply in longer maturities; intermediates performed considerably better.

Anne Parker Mills

Irving Trust

Market Yields

	5/23/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(noon)		
Short-term loans to substantial depositors with highest credit rating	14.50	16.50	11.75
Effective since	5/23/80		
Discount Rate at Federal Reserve Bank	13.00	13.00	9.50
Federal Funds	8.75	11.63	10.25
Repurchase Agreements	8.25	10.25	9.90
U.S. Treasury Issues			
Bills			
3 months	7.85	9.30	9.90
6 months	8.20	9.42	10.00
1 year	8.45	9.58	9.81
Coupons			
2 years	8.65	9.64	9.52
4 years	9.35	9.84	8.98
7 years	9.68	10.20	8.98
10 years	9.80	10.30	9.00
Long Bond	10.08	10.47	9.04
Negotiable Certificates of Deposit-Secondary Market			
1 month	8.45	10.25	10.08
3 months	8.50	10.25	10.12
6 months	8.40	10.10	10.18
1 year	9.00	10.20	10.20
Banker's Acceptances			
1 month	8.10	9.80	10.00
3 months	8.15	9.95	10.12
6 months	8.35	10.10	10.18
Eurodollar Deposits			
1 month	8.94	10.38	10.25
2 months	9.25	10.69	10.44
3 months	9.50	11.13	10.56
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	4.00	9.25	9.00
1 month	8.00	9.00	9.90
3 months	8.00	8.88	9.88
Bank Holding Companies			
1 month	8.25	9.50	9.75
Dealer Placed:			
3 months	8.25	9.50	9.95
New AA Corporate Utility Bond	11.50	11.85	9.95
Tax Exempt			
6 month Project Notes	4.90	5.50	4.90
1 year AAA Bond	5.00	5.40	N/A
5 year AAA Bond	5.20	5.70	N/A
20 year AAA Bond	6.75	6.90	5.70

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Financial Markets

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**Economic Research &
Planning Division**

Friday May 30, 1980

The credit markets are beginning to refocus on rate fluctuations in a more normal trading range. But the big story is still the immensity of the rate decline that has occurred in the past two months. Short-term money market rates have already declined 1,000 basis points, a return to their levels prior to November 1, 1978, when the Federal Reserve raised the discount rate 1% as part of a series of dollar defense measures. Looked at another way, short-term rates have already declined 80% of the way to the lows that we have been expecting for this cycle.

A drop that far that fast has naturally caused expectation of a technical reversal. But no significant backup in rates has materialized. Nor is it likely to occur before the recession is perceived to be over. Until then, any reversal will probably be limited to 100 or 150 basis points and not last very long. Rate movements are soon going to be a good deal less volatile than we have come to expect over the past few months. Before long, changes of 25 or 50 basis points will probably be receiving the attention recently given to moves of 100 basis points or more. Rates clearly can't continue sliding at the pace they have been. If they did, bankers would soon be paying their customers to take out loans. And if no significant rate backup is possible while signs of the recession multiply, this means a more normal trading range is going to have to develop around a much more modest downtrend over the remainder of this cycle.

Long-term rates have so far declined 250 or 300 basis points. Relatively, this represents a significantly smaller decline than for short rates. Whereas short rates are already back to their level of 1978, long rates are only back to their level at the beginning of this year, having declined only 50% of the way to the lows that we expect for this cycle. This relatively modest decline in long rates is not surprising, however, since the current difference between the declines in long- and short-term rates typically occurs in the early stages of a down cycle, as corporations refund short-term borrowings in the long-term markets. The record volumes of new corporate offerings that have recently been coming to market have put downward pressure on short rates and upward pressure on long rates.

Predicting a peak in business activity is usually a good guide as to when a cyclical peak in interest rates will occur. And that certainly proved to be the case this time. But predicting when business activity will bottom out is not as reliable a guide with respect to forecasting an interest rate trough. In the last cycle, the rate trough occurred almost three years after the recession ended; and in the cycle before that, the rate trough was more than a year after economic activity turned up. Rates did back up in both of the last two cycles soon after the end of the recession, but they later subsided and fell to their cyclical lows. Much the same may happen this time.

Gordon B. Pye

Irving Trust

Market Yields

	5/30/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(noon)		
Short-term loans to substantial depositors	14.00%	14.50%	11.75%
with highest credit rating	5/30/80		
Effective since			
Discount Rate at Federal Reserve Bank	12.00	13.00	9.50
Federal Funds	11.00	8.75	10.25
Repurchase Agreements	8.25	8.25	10.00
U.S. Treasury Issues			
Bills			
3 months	8.20	7.85	9.93
6 months	8.55	8.20	10.02
1 year	8.90	8.45	9.93
Coupons			
2 years	9.15	8.65	9.54
4 years	9.70	9.35	9.05
7 years	9.95	9.68	9.03
10 years	10.20	9.80	9.07
Long Bond	10.30	10.08	9.08
Negotiable Certificates of Deposit-Secondary Market			
1 month	8.65	8.45	10.10
3 months	8.75	8.50	10.12
6 months	9.05	8.40	10.22
1 year	9.00	9.00	10.30
Banker's Acceptances			
1 month	8.60	8.10	9.98
3 months	8.70	8.15	10.10
6 months	9.10	8.35	10.23
Eurodollar Deposits			
1 month	9.50	8.94	10.31
2 months	9.75	9.25	10.44
3 months	9.88	9.50	10.56
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.00	4.00	6.00
1 month	8.00	8.00	9.88
3 months	7.75	8.00	9.75
Bank Holding Companies			
1 month	8.38	8.25	9.95
Dealer Placed:			
3 months	8.38	8.25	9.95
New AA Corporate Utility Bond	12.00	11.50	9.95
Tax Exempt			
6 month Project Notes	5.05	4.90	4.65
1 year AAA Bond	5.20	5.00	N/A
5 year AAA Bond	5.55	5.20	N/A
20 year AAA Bond	6.75	6.75	5.70

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Financial Markets

Irving Trust

Irving Trust Company
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Economic Research &
Planning Division

Friday June 6, 1980

Renewed investor interest in key bond offerings this week prompted a reversal of the previous week's price declines. In the short-term markets, rates also trended down, especially in the Treasury bill sector. The markets were aided by continued signs of fundamental weakness in economic activity. Nevertheless, there are some grounds for believing that rates may stabilize in the next few weeks.

Part of the reason is that on Wednesday the Fed again demonstrated its willingness to intervene to prevent the funds rate from dropping below 9%--some concrete support for the view expressed the previous week by New York Fed President Anthony Solomon that the recent massive decline in interest rates was perhaps too rapid. In view of the fact that on May 6 three governors voted against the reduction to 10 1/2% of the lower limit of the Fed funds rate, plus Chairman Volcker's oft-expressed view that interest rates will come down when inflation rates decline, the Fed will probably not be willing to lower its acceptable range for the funds rate soon. However, if the money aggregates show declines in the next two or three weeks, then the Fed might move quickly to reduce rates well in advance of Chairman Volcker's scheduled testimony to Congress in early July.

Corporate bond rates may also stabilize or even move up a bit before giving ground later on. The reason is the immense pressure of new issues on the market, particularly from industrial firms. May set an all-time record for new-issue volume in the corporate sector, and the end of the surge is not yet in sight.

While retail demand was reasonably robust this week, life insurance companies, the major investors in the corporate bond market, are only just beginning to recover from their worst-ever bout with policy-loan disintermediation. Unlike thrift institutions, which pick up deposits again after losing them during high-rate periods, life insurance companies' policy loans tend not to be paid down rapidly as rates fall. Thus their participation in the market will probably be muted for some time to come. The gap may be made up by other participants, but for the near term, supply pressure is much more certain than is the robustness of retail demand. On balance, the summer of 1980 seems to be shaping up like the spring of 1975, when the pressure of a huge supply of new issues--led then, as now, by industrial offerings--forced long-term rates to reverse their earlier declines for several months before resuming their downward path. In a nutshell: Substantial near-term downside risk exists in this sector, though the long-term trend is clearly favorable.

The Fed this week announced a proposal to reduce the minimum maturity on time deposits to 14 days from 30 days. The change, permitted under the Monetary Control Act of 1980, would be the first since the 30-day minimum was legislated in 1933. If implemented, the domestic CD market would come to resemble much more closely the Euro-CD market, where very short-term CDs are quite common. Some contraction in the volume of term RPs and Fed funds transactions might also occur, as banks used CDs to compete for funds in the two-week range.

William C. Melton

Irving Trust

Market Yields

	6/6/80 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	13.00%	14.00%	11.75%
Effective since	6/6/80		
Discount Rate at Federal Reserve Bank	12.00	12.00	9.50
Federal Funds	10.50	11.00	10.25
Repurchase Agreements	10.25	8.25	10.00
U.S. Treasury Issues			
Bills			
3 months	7.50	8.20	9.61
6 months	7.98	8.55	9.80
1 year	8.29	8.90	9.65
Coupons			
2 years	8.85	9.15	9.29
4 years	9.30	9.70	8.80
7 years	9.70	9.95	8.80
10 years	9.88	10.20	8.89
Long Bond	10.00	10.30	8.94
Negotiable Certificates of Deposit-Secondary Market			
1 month	8.80	8.65	10.05
3 months	8.75	8.75	10.07
6 months	8.45	9.05	10.04
1 year	8.50	9.00	9.90
Banker's Acceptances			
1 month	8.70	8.60	10.05
3 months	8.50	8.70	10.05
6 months	8.35	9.10	10.05
Eurodollar Deposits			
1 month	9.69	9.50	10.31
2 months	9.75	9.75	10.38
3 months	9.75	9.88	10.44
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.00	9.00	9.50
1 month	8.00	8.00	9.90
3 months	7.75	7.75	9.88
Bank Holding Companies			
1 month	8.63	8.38	9.90
Dealer Placed:			
3 months	8.50	8.38	9.90
New AA Corporate Utility Bond	11.65	12.00	9.90
Tax Exempt			
6 month Project Notes	4.60	5.05	4.50
1 year AAA Bond	5.10	5.20	N/A
5 year AAA Bond	5.30	5.55	N/A
20 year AAA Bond	6.60	6.75	5.60

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Financial Markets

Irving Trust

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Economic Research & Planning Division

Friday June 13, 1980

Interest rates moved uncertainly this week as market participants continued to weigh the likelihood that the Federal Reserve might be in the process of lowering its acceptable range for the Federal funds rate. The cause of concern is obvious: All indications are that recession momentum is building, while the $500 million decline in the money stock (M1B) reported last Friday puts its level almost $8 billion below the lower target level for the end of June. Nevertheless--contrary to the opinion of many market participants--the Federal Reserve appears not to have budged from its presumed 9% lower limit on the acceptable range for the Federal funds rate.

During most of the statement week beginning June 5, funds traded comfortably above 9%. On Tuesday, however, they opened at 8 1/2% and shortly began to decline. The Fed responded by entering the market to do one-day reverse repurchase agreements (which drain reserves) at about 10:20 a.m.--an unusually early time. When the rate eased again around noon, the Fed offered a second round of reverse RPs. In these actions the Fed clearly focused, not on the level of the rate per se, but the direction of change, which pointed to a reserve excess.

On Wednesday, funds again opened at 8 1/2%, but, unlike Tuesday, there was no change in the rate in early trading. Hence the Fed, which probably was projecting a reserve need, sat on the sidelines to wait until the need showed through to the market. Some market participants, however, interpreted the Fed's willingness to let funds trade below 9% as evidence that the acceptable range for the funds rate had been lowered. Later on Wednesday morning, funds traded up to 9 1/4%, and the Fed came in to do customer RPs (which add reserves). The timing of the move strongly suggests that the sharp upward movement in the rate did two things for the Fed: (1) it confirmed their projected reserve need, and (2) it allowed them to add reserves when funds were trading comfortably above 9%. Thereafter, the rate eased off. The Fed may have miscalculated the size of the need, or, more likely, the market's psychological response carried the rate down. Late Wednesday afternoon, the Fed purchased a small amount of Treasury bills--probably to get a leg up on its projected reserve-adding operations for the statement week beginning Thursday.

Thursday was a repeat in some ways of the day before. Funds opened at 8 1/2%. The Fed, presumably wishing to get going with the week's reserve-adding operations, nevertheless refused to do so as long as funds continued to trade below 9%.

Buoyed by Thursday night's reduction of the discount rate from 12% to 11%, funds opened at 8% on Friday morning and soon traded up to 8 3/8%. The Fed demonstrated its dissatisfaction with the rate by moving unusually early and offering reverse RPs. As of noon, funds were trading in the upper part of the 8 1/2 to 9% range, and the Fed was once again on the sidelines.

On the basis of the events this week, it appears likely that--as suggested in this letter last week--the Fed will stick to its current Fed funds rate limits in order to see whether money growth will soon resume at a more acceptable rate. Before the end of the month, however, the Fed will probably tolerate a lower funds rate, perhaps as low as 8%.

William C. Melton

Irving Trust

Market Yields

	6/13/80 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	12.00%	13.00%	11.75%
Effective since	6/13/80		
Discount Rate at Federal Reserve Bank	11.00	12.00	9.50
Federal Funds	8.50	10.50	10.25
Repurchase Agreements	8.00	10.25	9.80
U.S. Treasury Issues			
Bills			
3 months	6.25	7.50	9.40
6 months	6.90	7.98	9.65
1 year	7.40	8.29	9.60
Coupons			
2 years	8.20	8.85	9.09
4 years	8.55	9.30	8.81
7 years	8.75	9.70	8.88
10 years	9.40	9.88	8.88
Long Bond	9.48	10.00	8.88
Negotiable Certificates of Deposit-Secondary Market			
1 month	8.25	8.80	10.00
3 months	8.25	8.75	9.95
6 months	8.10	8.45	9.93
1 year	8.00	8.50	9.85
Banker's Acceptances			
1 month	8.25	8.70	9.90
3 months	7.88	8.50	9.89
6 months	8.15	8.35	9.86
Eurodollar Deposits			
1 month	8.69	9.69	10.44
2 months	8.75	9.75	10.44
3 months	8.75	9.75	10.50
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.13	8.00	9.88
1 month	7.75	8.00	9.75
3 months	7.50	7.75	9.50
Bank Holding Companies			
1 month	7.50	8.63	9.88
Dealer Placed:			
3 months	7.75	8.50	9.65
New AA Corporate Utility Bond	11.00	11.65	9.75
Tax Exempt			
6 month Project Notes	3.70	4.60	4.60
1 year AAA Bond	4.60	5.10	N/A
5 year AAA Bond	5.10	5.30	N/A
20 year AAA Bond	6.50	6.60	5.70

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Financial Markets

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**Economic Research &
Planning Division**

Friday June 20, 1980

This week market interest rates edged up as the Federal Reserve was back in the driver's seat again after having briefly been stymied late last week by the market's excessively optimistic view of Fed policy. The problem then--as described in some detail here last Friday--was that the Fed faced a reserve-adding task in the statement week beginning June 12 that it could not carry out so long as the market danced to its own tune and traded funds at rates under the Fed's presumed 9% acceptable weekly average rate. By Monday, however, the reserve need--plus the Fed's dramatic reserve-draining operation Friday morning--had caught the market's attention, and the funds rate was safely ensconced in over 9% territory. Thus the Fed was able to pump in reserves to cover projected needs in that statement week as well as the one beginning on June 19 without seriously imperiling the 9% minimum average rate. In fact, the average effective rate for the statement week came in at 8.99%--only one basis point below the presumed minimum.

The large $2.6 billion increase in the money supply (M1B) announced last Friday probably deferred until the latter part of this month any further efforts by the Fed to speed the return of the monetary aggregates to the target paths. The market has focused almost exclusively on the gap between the lower bound of the 4%-6 1/2% target for M1B and the level of M1B--as of the week ended June 4, the shortfall was about $4 billion. However, Fed officials are probably giving more weight to the sizable closing of the gap in recent weeks. The shortfall, which was almost $10 billion on the week ended April 30, has by now been pared back by more than half. Thus Fed officials are likely to defer decisions to stimulate further until late June in order to gauge more accurately the delayed effect of the relaxation already implemented.

In this context, it is interesting to note that the growth of money market mutual fund shares has resumed its rapid pace following the interruption caused in March and April by the Fed's March 14 credit restraint program. The main reason for the resurgence is the attractive yields that the funds—both clones and non-clones--continue to pay. The pickup in growth of the money funds accounted for $4.8 billion of the $12 billion increase in M2 (which includes money fund shares) in May, although they are only about 4% of M2. Since growth of M2 was so strong in May—9.2% at an annual rate--M2 is now close to the bottom of the 6%-9% target range for the aggregate. The recent strength shown by M2--largely unnoticed by market participants--is probably also contributing to the willingness of the Fed to wait awhile before proceeding with further easing.

In reaction to the turnabout in the funds market, the rally that started late last week ran out of steam. Rates on short-term securities--especially Treasury bills--backed up over the week, while bond prices were about unchanged. Not only have some market participants become less certain that the Fed has eased—as many had proclaimed last week—but rates charged dealers to finance their securities inventories were generally punitively high relative to the rates on the securities themselves. Most of the bullish economic news received during the week--uniformly reflecting the deteriorating economy--had been anticipated and thus had little supportive effect on the market.

William C. Melton

Irving Trust

Market Yields

	6/20/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(NOON)		
Short-term loans to substantial depositors with highest credit rating	12.00%	12.00%	11.50%
Effective since	6/13/80		
Discount Rate at Federal Reserve Bank	11.00	11.00	9.50
Federal Funds	9.38	8.50	10.25
Repurchase Agreements	8.50	8.00	9.55
U.S. Treasury Issues			
Bills			
3 months	6.96	6.25	9.25
6 months	7.02	6.90	9.50
1 year	7.40	7.40	9.60
Coupons			
2 years	8.59	8.20	9.26
4 years	9.00	8.55	8.95
7 years	9.25	8.75	8.90
10 years	9.47	9.40	8.92
Long Bond	9.54	9.48	8.91
Negotiable Certificates of Deposit-Secondary Market			
1 month	8.75	8.25	9.80
3 months	8.50	8.25	9.90
6 months	8.25	8.10	10.00
1 year	8.00	8.00	10.00
Banker's Acceptances			
1 month	8.40	8.25	9.88
3 months	8.30	7.88	9.94
6 months	8.55	8.15	10.03
Eurodollar Deposits			
1 month	9.13	8.69	10.56
2 months	9.19	8.75	10.63
3 months	9.31	8.75	10.69
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.25	8.13	9.01
1 month	8.00	7.75	9.70
3 months	7.75	7.50	9.60
Bank Holding Companies			
1 month	8.38	7.50	9.63
Dealer Placed:			
3 months	8.13	7.75	9.63
New AA Corporate Utility Bond	11.00	11.00	9.65
Tax Exempt			
6 month Project Notes	3.50	3.70	4.70
1 year AAA Bond	4.90	4.60	N/A
5 year AAA Bond	5.10	5.10	N/A
20 year AAA Bond	6.80	6.50	5.80

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Financial Markets

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Economic Research &
Planning Division

Friday June 27, 1980

Interest rates generally backed up over the week, especially in the short-term sector, as opinion spread that the Fed had not eased its policy stance. The basic reason for the reversal of attitude is that there is no real evidence that the Fed has budged from the 9% lower limit on the weekly average Federal funds rate. This view received further support this week when Anthony M. Solomon, President of the Federal Reserve Bank of New York, made a speech in which he indicated that fiscal stimulus to the economy now would be premature. Thus it seemed increasingly likely that further easing might come only after the next meeting of the Federal Open Market Committee on July 9. Since many participants had priced securities recently on the assumption that either the Fed already had eased or that it would do so imminently, the changed appraisal of the Fed's posture caused retail demand to stall. That, together with heavy dealer positions and the generally negative "carry" involved in financing them, forced rates to back up. The impact has been most severe in the Treasury bill sector, where the rates on the 91-day bill have increased over 100 basis points since a 6.39% rate was set in the auction on June 16.

Also contributing to the rising tendency of long-term rates was the continuing heavy calendar in the corporate and municipal markets, as well as the prospect that the Treasury's seasonally heavy financing needs in the third quarter might be even greater than anticipated. Despite some last-minute postponements, June appears likely to set a new all-time record for corporate new-issue volume (the previous record was set last month!), and the continued robustness of the calendar augurs for the pressure to be maintained in the immediate future. In the municipal sector the calendar is also heavy, while retail demand is relatively weak, particularly in the longer maturities. The result has been rising rates and dealer inventories at their highest levels in 1980. All of this sets the stage for further increases in long-term rates unless the Fed eases soon.

The unrealistic and irresponsible Federal debt ceiling has created substantial problems for the Treasury and probably the Federal Reserve. The Treasury has been forced to curtail the size of several planned offerings and has reduced its deposits at the Federal Reserve substantially (by a $1 billion average in the week ending June 11, and $861 million in the week ending June 18). Such deposit reductions add reserves to the banking system and can complicate the Fed's reserve-management task if they are not known in advance. They may well have played a role in the occasional softness of the funds rate in recent weeks, since they probably contributed to greater availability of reserves than the Fed was projecting.

Since the Fed took no action today to indicate a change in its policy stance, it probably will wait until the July 9 FOMC meeting before considering further initiatives.

William C. Melton

Irving Trust

Market Yields

	6/27/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(noon)		
Short-term loans to substantial depositors with highest credit rating	12.00%	12.00%	11.50%
Effective since	6/13/80		
Discount Rate at Federal Reserve Bank	11.00	11.00	9.50
Federal Funds	9.38	9.38	10.25
Repurchase Agreements	8.00	8.50	9.20
U.S. Treasury Issues			
Bills			
3 months	7.75	6.96	9.30
6 months	8.08	7.02	9.60
1 year	8.35	7.40	9.42
Coupons			
2 years	8.90	8.59	8.98
4 years	9.22	9.00	8.70
7 years	9.40	9.25	8.68
10 years	9.82	9.47	8.80
Long Bond	9.93	9.54	8.83
Negotiable Certificates of Deposit-Secondary Market			
1 month	8.75	8.75	9.90
3 months	8.75	8.50	9.90
6 months	8.80	8.25	9.90
1 year	N.A.	8.00	9.90
Banker's Acceptances			
1 month	8.75	8.40	9.75
3 months	8.70	8.30	9.85
6 months	8.80	8.55	10.00
Eurodollar Deposits			
1 month	9.19	9.13	10.56
2 months	9.25	9.19	10.56
3 months	9.44	9.31	10.63
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.25	8.25	9.50
1 month	8.00	8.00	9.63
3 months	7.75	7.75	9.38
Bank Holding Companies			
1 month	8.00	8.38	9.75
Dealer Placed:			
3 months	8.25	8.13	9.75
New AA Corporate Utility Bond	11.50	11.00	9.70
Tax Exempt			
6 month Project Notes	4.50	3.50	4.60
1 year AAA Bond	4.60	4.90	N/A
5 year AAA Bond	5.15	5.10	N/A
20 year AAA Bond	6.90	6.80	5.80

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Financial Markets

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**Economic Research &
Planning Division**

Thursday July 3, 1980

Today, the Federal Reserve Board did the expected by scrapping the special Credit Restraint Program introduced March 14. The program clearly was serving no useful economic purpose if in fact it ever did. Specifically, the Board terminated (1) the 5% reserve requirement on "managed liabilities" effective July 10; (2) the 2% supplementary reserve requirement on large time deposits of member banks effective July 10; (3) the 7 1/2% special deposit required against growth of certain forms of consumer credit effective July 23; and (4) the 5% special deposit required against growth of money market funds effective July 28. The "voluntary" 6%-9% guideline on loan growth of banks and finance companies will be phased out. To say the least, the program dies unmourned.

Otherwise, the holiday-shortened week was beset by a variety of special factors. On Wednesday, the Treasury offered a particularly indigestible 14-year, 10-month bond. Many dealers were apprehensive about the risk involved in positioning the always hard-to-place issue over the weekend. In this setting, it was not surprising that a 10.42% rate was set on the issue, well above rates on maturities to either side of 15 years.

The funds market was under pressure on Monday due to the traditional statement-day window-dressing engaged in by many commercial banks. Despite the Fed's temporary injection of reserves, the effective funds rate for the day came in at 10.44%, well above the 9%+ rate on other days in the week--such is the price of window dressing! In general, during the statement week ended Wednesday, the Fed was able to go about its seasonal reserve-adding task in an apparently almost leisurely fashion--unlike earlier weeks, nothing in the market's trading pattern aroused the Fed's ire. The immediate prospect is for more of the same--unless the Fed should decide to move to a more expansive policy in the statement week beginning Thursday, July 10.

To assess that possibility, greater than usual attention will be focused on the money stock data--release of which will be postponed to Monday due to the July 4 holiday--to see if the large uptick reported the week before begins to be washed out. Then on Wednesday, the FOMC meets, and the following two days should provide an indication of whether the Committee decided to move toward a more expansive policy.

Too much encouragement should not be gleaned from the termination of the Credit Restraint Program, which was largely a symbolic--though much appreciated!--gesture. In particular, in its announcement the Board stated that its goals of restraining the growth of money and credit aggregates were unchanged. Unless the recent rapid growth of M_1B should falter or reverse itself soon, the best bet is that the FOMC will not ease its policy at the July 9 meeting, but will defer action for a few more weeks.

William C. Melton

Irving Trust

Market Yields

	7/3/80 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	12.00%	12.00%	11.50%
Effective since	6/13/80		
Discount Rate at Federal Reserve Bank	11.00	11.00	9.50
Federal Funds	9.38	9.38	10.25
Repurchase Agreements	8.25	8.00	9.80
U.S. Treasury Issues			
Bills			
3 months	7.96	7.75	9.55
6 months	7.89	8.08	9.70
1 year	7.89	8.35	9.52
Coupons			
2 years	8.21	8.90	9.05
4 years	9.32	9.22	8.80
7 years	9.68	9.40	8.70
10 years	10.10	9.82	8.85
Long Bond	10.00	9.93	8.85
Negotiable Certificates of Deposit-Secondary Market			
1 month	8.50	8.75	9.95
3 months	8.60	8.75	9.95
6 months	8.60	8.80	10.05
1 year	9.00	N.A.	10.00
Banker's Acceptances			
1 month	8.80	8.75	9.93
3 months	8.75	8.70	9.95
6 months	8.60	8.80	10.05
Eurodollar Deposits			
1 month	9.25	9.19	10.56
2 months	9.31	9.25	10.63
3 months	9.38	9.44	10.63
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	6.00	8.25	10.00
1 month	8.25	8.00	9.75
3 months	8.00	7.75	9.38
Bank Holding Companies			
1 month	8.50	8.00	9.75
Dealer Placed:			
3 months	8.38	8.25	9.65
New AA Corporate Utility Bond	11.75	11.50	9.65
Tax Exempt			
6 month Project Notes	4.35	4.50	4.60
1 year AAA Bond	5.00	4.60	N.A.
5 year AAA Bond	5.50	5.15	N.A.
20 year AAA Bond	7.10	6.90	5.70

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Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday July 11, 1980

Rates generally moved sideways through Wednesday, as market participants assessed the odds that the Wednesday meeting of the FOMC might produce a change in monetary policy. The lack of market action probably reflected the view that the scrapping of the Credit Restraint Program was largly symbolic.

On Thursday and Friday, the tone of the markets worsened, as many participants reacted with disappointment to the lack of overt evidence of Fed easing as well as the pickup in retail sales reported Thursday. In fact, the limited evidence indicates pretty clearly that--as had been predicted in this letter earlier--the Fed did not lower its minimum acceptable weekly average Fed funds rate from the 9% level. Our projections suggest that the Fed has a modest seasonal reserve-adding job to do in the statement week that began yesterday. Instead of moving to cover the need right away, the Fed held off, as funds generally traded at 8 3/4%. Today, the reserve need may have begun to show up in the market, as funds opened at 9% and shortly moved up. Shortly before noon, right after the funds rate had risen to 9 1/4%, the Fed offered a modest amount of customer RPs. The pattern of operating suggests a reluctance to add reserves as long as funds are trading at or below 9%. The disappointment of market participants was reflected in modest increases in certain short-term rates, together with more substantial adjustments in the long-term sector. For example, at the end of last week, the Treasury's 10% bond of 2010 was bid slightly over par; by the end of this week, it was bid under 98.

The termination of the consumer credit controls program came almost precisely when we had expected, but the dropping of the other parts of the program had not been anticipated until around September. In retrospect, it appears that two considerations may have spurred the Federal Reserve Board to scrap the whole program at once. The first has to do with the politics of the Board and Congress. The Fed--especially certain members of the Board--is undoubtedly anxious to demonstrate to Congress its concern for the worsening unemployment situation, while maintaining its commitment to slowing the inflation rate. Scrapping the entire program in advance of the congressional oversight hearings on July 22 was clearly one way of symbolizing the depth of that commitment. Another, more technical, consideration may also have favored the same course. To implement the Monetary Control Act of 1980, the Fed plans to reduce member bank reserve requirements every six months or so until the adjustment is completed. Since frequent changes of reserve requirements create operational problems for banks, the Fed may well have decided to minimize such difficulties by dropping the special reserve requirements now, rather than complicating the phase-out schedule by delaying.

In the near term, the markets may react somewhat further to the absence of immediate Fed easing (though by now that prospect has been pretty fully discounted). Nevertheless, the outlook is for additional easing, perhaps in a month or six weeks.

William C. Melton

Irving Trust

Market Yields

	7/11/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(noon)		
Short-term loans to substantial depositors with highest credit rating	11.50	12.00%	11.50%
Effective since	7/7/80		
Discount Rate at Federal Reserve Bank	11.00	11.00	9.50
Federal Funds	9.13	9.38	10.24
Repurchase Agreements	8.25	8.25	9.80
U.S. Treasury Issues			
Bills			
3 months	8.25	7.96	9.65
6 months	8.50	7.89	9.75
1 year	8.60	7.89	9.48
Coupons			
2 years	9.00	8.21	9.00
4 years	9.35	9.32	8.85
7 years	9.60	9.68	8.85
10 years	10.20	10.10	8.95
Long Bond	10.25	10.00	8.90
Negotiable Certificates of Deposit-Secondary Market			
1 month	8.65	8.50	10.10
3 months	8.75	8.60	10.15
6 months	8.85	8.60	10.20
1 year	9.50	9.00	10.05
Banker's Acceptances			
1 month	8.50	8.80	10.12
3 months	8.70	8.75	10.20
6 months	8.80	8.60	10.25
Eurodollar Deposits			
1 month	9.13	9.25	10.56
2 months	9.25	9.31	10.69
3 months	9.38	9.38	10.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	6.00	6.00	10.00
1 month	8.38	8.25	9.90
3 months	8.38	8.00	9.38
Bank Holding Companies			
1 month	8.50	8.50	9.90
Dealer Placed:			
3 months	8.13	8.38	9.88
New AA Corporate Utility Bond	12.00	11.75	9.65
Tax Exempt			
6 month Project Notes	4.80	4.35	4.55
1 year AAA Bond	5.25	5.00	N/A
5 year AAA Bond	5.45	5.50	N/A
20 year AAA Bond	7.10	7.10	5.75

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Financial Markets

Irving Trust

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**Economic Research &
Planning Division**

Friday July 18, 1980

This week, market rates declined sharply on Wednesday in reaction to the Federal Reserve's execution of customer RPs when funds were trading at 8 3/4%. Later in the week, as the Fed gave no additional confirmation of ease and unexpectedly strong June housing starts were reported, rates backed up to offset some of the earlier declines. Finally, around noon today the Fed entered the market to arrange over-the-weekend customer RPs with funds trading at 8 3/4%. This confirmed that the Fed is willing to allow funds to trade lower than in recent weeks.

The minutes of the May 20 Federal Open Market Committee, released last Friday, contain a number of clues as to why the Fed seemingly has abandoned the new operating procedures announced last October 6. Most press discussions of the minutes have focused on the 8 1/2%-14% acceptable range for the weekly average funds rate that was adopted at the meeting. It should be clear from the pattern of recent weeks, however, that the Fed, in practice, has not had to use all of the leeway granted to the Open Market Desk to allow the funds rate to decline. Indeed, it is conceivable that the FOMC meeting on July 9 may have lowered the bottom of the range to 8% or 7 1/2%--but as a practical matter the additional authority (if any) is not yet being used.

From the minutes and the Fed's recent behavior, it is clear that the focus of the Fed's operating procedures has placed increased emphasis on interest rates. The reason, emphasized in the minutes (but ignored in the press), is that the Fed's staff analysis argued that the below-target growth of the money supply in recent months was an aberration. The staff made three key predictions: (1) May-June money growth would be strong; (2) the strong growth would still not suffice to get money back to the bottom of the target range by the end of June; and (3) in a few months, money would return to its target range, even if no additional reserves stimulus were provided. The first two of these predictions were right on the mark; insufficient time has elapsed to pass on the third. As a result, going into the July 9 meeting the staff had no reason to change its outlook, and the FOMC certainly had no reason to dispute it. Naturally, worries about inflation and the foreign exchange value of the dollar also pointed to an operational focus on interest rates.

In the near term, the staff prediction that money will return to its target range probably will not be validated, for two principal reasons. First, the economy continues weak--though there are some signs of bottoming out--and that should dampen money demand. Second, the most rapidly growing form of checkable account --shares of money market mutual funds--is not even included in M1B. As depositors continue to shift balances to money funds, the measured money stock will tend to be sluggish. To spur money growth, the Fed will be forced to increase its provision of reserves, thus lowering interest rates. (Though M1A and M1B are below their targets, M2, which includes money fund shares, is right in the middle of the target range, due in large part to recent strong money fund growth.)

Hence the outlook is for an additional easing of the Fed's policy stance before long, perhaps around the scheduled August 19 FOMC meeting.

William C. Melton

Irving Trust

Market Yields

	7/18/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(noon)		
Short-term loans to substantial depositors with highest credit rating	11.50%	11.50%	11.50%
Effective since	7/7/80		
Discount Rate at Federal Reserve Bank	11.00	11.00	10.00
Federal Funds	8.75	9.13	10.63
Repurchase Agreements	8.13	8.25	9.60
U.S. Treasury Issues			
Bills			
3 months	7.90	8.25	9.80
6 months	7.90	8.50	10.05
1 year	7.83	8.60	9.85
Coupons			
2 years	8.95	9.00	9.25
4 years	9.22	9.35	8.92
7 years	9.65	9.60	8.86
10 years	10.12	10.20	8.99
Long Bond	10.12	10.25	8.95
Negotiable Certificates of Deposit-Secondary Market			
1 month	8.65	8.65	10.20
3 months	8.65	8.75	10.30
6 months	8.70	8.85	10.55
1 year	9.00	9.50	10.25
Banker's Acceptances			
1 month	8.60	8.50	10.13
3 months	8.55	8.70	10.30
6 months	8.65	8.80	10.58
Eurodollar Deposits			
1 month	9.00	9.13	10.75
2 months	9.13	9.25	10.94
3 months	9.25	9.38	11.00
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	6.00	6.00	9.63
1 month	8.38	8.38	9.90
3 months	8.38	8.38	9.63
Bank Holding Companies			
1 month	8.50	8.50	9.90
Dealer Placed:			
3 months	8.38	8.13	9.95
New AA Corporate Utility Bond	11.75	12.00	9.75
Tax Exempt			
6 month Project Notes	4.70	4.80	4.60
1 year AAA Bond	5.00	5.25	N/A
5 year AAA Bond	5.30	5.45	N/A
20 year AAA Bond	7.40	7.10	5.85

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Financial Markets

Irving Trust

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**Economic Research &
Planning Division**

Friday July 25, 1980

The Federal Reserve was the focus of attention this week, as Chairman Volcker testified at the congressional monetary policy oversight hearings, and market participants assessed the Fed's open market operations for clues to its policy stance.

Mr. Volcker's Senate testimony, delivered on Tuesday, contained many of the points recorded in the minutes of the May 20 FOMC meeting: (1) the target ranges for monetary growth this year were left unchanged; (2) the narrower aggregates were predicted to be back within their target ranges by year-end; and (3) a suggestion was made that money growth might come in at the lower end of the ranges if the recent "unusual" behavior of money demand extends into the second half of the year. In addition, the Chairman reiterated the Committee's determination to pursue a reduced rate of monetary growth over the longer run; but in light of various technical problems concerning the introduction of nationwide NOW accounts, etc., no targets were specified for 1981 monetary growth. Indeed, the presentation left little doubt that the Fed, by its implied willingness to entertain a wide range of money growth rates this year, is currently giving greater weight to interest rates and less weight to the monetary aggregates targets. Since this had been known or suspected before, there was little market impact.

In contrast, the market was almost obsessed with the pattern of open market operations this week. Briefly, the Fed passed through to the market sizable numbers of customer RPs on Friday and Monday, as was expected in a week calling for a modest reserve add. Then on Tuesday, the Fed did reverse RPs when funds were trading at 8 1/4%. The best guess is that the draining operation was prompted by a revision of the Fed's reserve projections, probably centering on the behavior of float. In any event, the action caught the market by surprise, and earlier rate declines were rapidly reversed. On Wednesday, funds opened at 8 5/8% and had just begun to trade up to 8 7/8% shortly after noon, when the Fed offered its own RPs. In all likelihood this initiative was designed to counter an emerging reserve shortage, while simultaneously dispelling any lingering doubts concerning the Fed's policy stance well in advance of the Treasury's announcement of its refunding operation. From that point of view, the opportunity was golden. During the statement week beginning Thursday, there would be little chance to show the market an RP of any kind, since the Fed must drain a large amount of reserves to offset the impact of previously announced reductions in reserve requirements. As anticipated, the Fed began its reserve draining task by selling Treasury bills on Thursday.

The bottom line: for now, the Fed is willing to see funds trade in the middle of the 8%-9% range, but further easing over the next several weeks will be gradual, with the weekly average funds rate dropping by modest amounts, if at all. However, we continue to expect additional ease to be voted by the August 19 FOMC meeting.

William C. Melton

Irving Trust

Market Yields

	7/25/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(Noon)		
Short-term loans to substantial depositors with highest credit rating	11.00%	11.50%	11.75%
Effective since	7/24/80		
Discount Rate at Federal Reserve Bank	11.00	11.00	10.00
Federal Funds	8.63	8.75	10.63
Repurchase Agreements	8.50	8.13	9.00
U.S. Treasury Issues			
Bills			
3 months	8.25	8.20	9.45
6 months	8.44	8.40	9.98
1 year	8.60	8.50	9.80
Coupons			
2 years	9.03	8.95	9.29
4 years	9.42	9.22	8.98
7 years	10.15	9.65	9.00
10 years	10.20	10.12	9.01
Long Bond	10.24	10.12	8.99
Negotiable Certificates of Deposit-Secondary Market			
1 month	8.50	8.65	10.15
3 months	8.55	8.65	10.35
6 months	8.70	8.70	10.50
1 year	9.00	9.00	10.35
Banker's Acceptances			
1 month	8.50	8.60	10.15
3 months	8.50	8.55	10.40
6 months	8.45	8.65	10.60
Eurodollar Deposits			
1 month	8.88	9.00	11.00
2 months	8.94	9.13	11.06
3 months	9.06	9.25	11.06
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	7.00	6.00	9.50
1 month	8.38	8.38	9.90
3 months	8.38	8.38	9.63
Bank Holding Companies			
1 month	8.38	8.50	10.00
Dealer Placed:			
3 months	8.38	8.38	10.13
New AA Corporate Utility Bond	11.90	11.75	9.75
Tax Exempt			
6 month Project Notes	4.55	4.70	4.85
1 year AAA Bond	5.10	5.00	N/A
5 year AAA Bond	5.40	5.30	N/A
20 year AAA Bond	7.20	7.40	5.80

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Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research & Planning Division

Friday Aug. 1, 1980

Rates moved sharply higher this week. The most important economic news was the unexpectedly strong 2.5% increase in the June index of leading indicators reported Wednesday. On the same day, the Treasury confirmed expectations of a huge supply of new debt to be issued this quarter. Against a background of heavy supply currently weighing on the corporate and municipal bond markets, the near-term outlook for bond prices looked distinctly bleak.

But the real source of concern was the run-up of the Federal funds rate, which averaged well over 9% during the week. The market interpreted the rising pattern as a signal that the Federal Reserve had tightened its policy stance--or at least that it had not eased the previous week, as many had believed.

In our view, the Fed was encountering significant problems in projecting reserve supplies, and likely did not make a policy change. To start with, the Fed sold bills on Thursday, as expected, in order to offset the impact of the previously announced reductions of reserve requirements. Probably some time Friday the Fed began to receive major revisions to its reserve projections, for that evening it made the rather extraordinary announcement that due to "significant operating problems" the scheduled release of the special deposits of money market mutual funds was to be advanced by two weeks to Monday. This operation added reserves. On Monday, as funds began to firm slightly from the 8 3/4% opening rate, the Fed again added a modest amount of reserves through customer RPs. Nevertheless, the rate gradually traded up during the day and opened on Tuesday at 9 1/8%. After the rate had again advanced somewhat, the Fed added reserves through its own RPs. Nevertheless, funds continued to firm. On Wednesday, the Fed did no open market operations despite a gradual firming of the rate during most of the day. However, the Bundesbank was intervening to support the DM that day by selling dollars, which it probably obtained by selling bills to the Fed. This operation would have added reserves and would have been viewed by the Fed as a restraint on the rate rise. Again on Thursday, substantial Bundesbank intervention probably produced a reserve add, though it was not visible on the market. In the face of upward rate pressures, the Fed also added reserves through executing its own RPs on both Thursday and Friday.

Though it is impossible to be certain at this stage, the pattern of operations points to efforts by the Fed to offset an emerging unanticipated reserve shortage. Indeed, amid all the sound and fury, the weekly average effective funds rate came in at 8.98% for the statement week ended Wednesday, up only slightly from the week before. Hence the record does not indicate that the Fed has moved to a tighter posture, despite the recent firmness.

Looking further ahead, we continue to anticipate lower short-term rates, but the pace of the declines should be gradual. Last Friday's large $2.5 billion increase in M1B lifted that aggregate to the bottom of its 4%-6 1/2% target range. For the time being, the Fed is almost certain to be satisfied with that.

William C. Melton

Irving Trust

Market Yields

	8/1/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(noon)		
Short-term loans to substantial depositors with highest credit rating	11.00%	11.00%	11.75%
Effective since	7/24/80		
Discount Rate at Federal Reserve Bank	10.00	11.00	10.00
Federal Funds	10.63	8.63	10.63
Repurchase Agreements	9.50	8.50	9.60
U.S. Treasury Issues			
Bills			
3 months	8.88	8.25	9.70
6 months	9.17	8.44	9.95
1 year	9.28	8.60	9.68
Coupons			
2 years	9.61	9.03	9.25
4 years	9.90	9.42	8.96
7 years	10.00	10.15	8.90
10 years	10.65	10.20	8.92
Long Bond	10.62	10.24	8.92
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.90	8.50	10.10
3 months	9.90	8.55	10.30
6 months	10.00	8.70	10.45
1 year	10.25	9.00	10.40
Banker's Acceptances			
1 month	9.55	8.50	10.18
3 months	9.55	8.50	10.35
6 months	9.55	8.45	10.50
Eurodollar Deposits			
1 month	10.38	8.88	10.94
2 months	10.44	8.94	11.00
3 months	10.50	9.06	11.00
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.00	7.00	9.63
1 month	8.75	8.38	9.95
3 months	8.75	8.38	9.75
Bank Holding Companies			
1 month	8.63	8.38	10.00
Dealer Placed:			
3 months	8.50	8.38	10.10
New AA Corporate Utility Bond	12.50	11.90	9.70
Tax Exempt			
6 month Project Notes	4.40	4.55	4.95
1 year AAA Bond	5.10	5.10	N/A
5 year AAA Bond	5.50	5.40	N/A
20 year AAA Bond	7.85	7.20	5.75

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Financial Markets

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Economic Research &
Planning Division

Friday August 8, 1980

This week interest rates worked down on balance, largely due to the influence of the spectacular drop in the Federal funds rate. By late in the week, the funds rate had returned to its approximate range of two weeks ago, before the market's fears of a tightening of the Fed's policy stance had set in. As we explored in some detail in last week's letter, there never was any hard evidence indicating the Fed had tightened its policy. Events this week confirmed that analysis.

In a word, the funds market was volatile. The background to the drama was that the Fed (according to our projections) needed to drain a modest amount of reserves in the statement week which began Thursday, July 31. However, the near-panicky market psychology, together with a likely failure of some banks to realize just how plentiful their reserves actually were, kept up the pressure on the funds market prior to the weekend, and the Fed very reluctantly supplied reserves through repurchase agreements. That, of course, meant an even greater reserve-draining job would have to be done after the weekend. In that setting, the Fed clearly expected the funds rate to soften--and it did! After opening at 10 3/8% Monday morning, funds traded off to the 8 1/2% range by late afternoon. On Tuesday, the rate plunged further to 2% late in the day--despite the Fed's aggressive draining through two rounds of reverse RPs. On Wednesday, the Fed drained some more with funds trading around 7 1/2%.

The new statement week which began on Thursday resembled the calm after the storm. Funds chugged along mostly in the 8 3/4% to 9 1/4% area, with everyone--including the Fed--apparently satisfied that reserve positions were about in balance.

The pattern of the Fed's recent open market operations has important implications for market participants. First, it should now be obvious that the Fed has not budged from the reserves-oriented operating procedures adopted October 6 of last year. From the standpoint of the Fed's long-haul effort to restrain inflation, that should be reassuring. Second, it is clear that market participants who endeavor to gauge the Fed's policy stance by reference to recent "intervention points" (the rates at which reserves are supplied or drained) risk being misled, as many were when last week's reserve miss forced rates higher.

Another implication is that the pace of corporate bond offerings should pick up again soon, after having been pared back recently due to the Treasury's refunding this week and the concern that a new and more restrictive Fed posture might force rates higher. As those fears are laid to rest, the flow of new offerings should resume its recent heavy volume. Thus, pressure on rates in that sector should continue for the near term, before beginning to abate later in the fall.

William C. Melton

Irving Trust

Market Yields

	8/8/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	11.00%	11.00%	11.75%
Effective since	7/24/80		
Discount Rate at Federal Reserve Bank	10.00	10.00	10.00
Federal Funds	9.13	10.63	10.63
Repurchase Agreements	8.88	9.50	10.25
U.S. Treasury Issues			
Bills			
3 months	8.70	8.88	9.69
6 months	9.13	9.17	9.98
1 year	9.30	9.28	9.75
Coupons			
2 years	9.65	9.61	9.30
4 years	9.98	9.90	8.99
7 years	10.50	10.00	8.99
10 years	10.75	10.65	9.00
Long Bond	10.65	10.62	8.96
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.15	9.90	10.50
3 months	9.30	9.90	10.55
6 months	9.50	10.00	10.65
1 year	10.00	10.25	10.55
Banker's Acceptances			
1 month	9.15	9.55	10.60
3 months	9.25	9.55	10.65
6 months	9.55	9.55	10.75
Eurodollar Deposits			
1 month	9.63	10.38	11.00
2 months	9.88	10.44	11.19
3 months	10.19	10.50	11.25
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	7.00	9.00	10.25
1 month	8.63	8.75	10.25
3 months	8.75	8.75	10.00
Bank Holding Companies			
1 month	8.63	8.63	10.30
Dealer Placed:			
3 months	8.63	8.50	10.20
New AA Corporate Utility Bond	12.50	12.50	9.70
Tax Exempt			
6 month Project Notes	4.35	4.40	5.20
1 year AAA Bond	5.00	5.10	N/A
5 year AAA Bond	5.40	5.50	N/A
20 year AAA Bond	7.95	7.85	5.75

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Financial Markets

Irving Trust

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**Economic Research &
Planning Division**

Friday August 15, 1980

Rates continued to be volatile this week as market participants attempted to assess the week's economic news for indications of the likely direction of the securities markets. Contributing to the tension was the burdensome level of inventories carried in from the previous week's Treasury refunding, as well as the substantial calendar of new corporate issues coming to market. The Federal Open Market Committee met on Tuesday, but with supply problems capturing the market's attention, there was for the moment remarkably little concern over what the outcome of the meeting might be. That should change soon, however.

The markets were helped somewhat by the relatively low level of the Federal funds rate on Tuesday and Wednesday, together with the Fed's coupon purchase on Wednesday. However, since the operation was viewed as technical in nature, and since the market universally expected the funds market to be tight on Friday (settlement day for the Treasury issues offered in the previous week's refunding), market gains were limited.

Once the special factors marking this week are out of the way, the market's attention is likely to revert to its favorite obsession--the Fed's policy stance. Thus, it is worth reviewing the setting in which this week's FOMC meeting took place. Since the last meeting, a number of economic indicators have pointed toward more strength than had generally been anticipated earlier. As a result, most observers are now expecting a recovery to set in sometime in the fourth quarter of this year. In the international financial sector, the dollar's foreign exchange value remains highly sensitive to interest rate movements. And the growth of the monetary aggregates has been rapid recently. With M_1A and M_1B at or slightly below the lower bounds of their target ranges, while the broader M_2 measure is in the upper part of its range, the Fed almost certainly does not feel under pressure to try to speed monetary expansion. In sum, all of these considerations point toward at least a temporary halt in the Fed's move toward ease.

Of course, several other factors will weigh in the opposite direction. We remain in a recession and the politically sensitive unemployment rate will probably rise further in coming months. Also, reflecting the recent run-up in rates in the secondary mortgage market, a number of mortgage lenders have raised their residential mortgage rates. Naturally, if this upward movement is not reversed soon, pressure will build on the Fed to do something to avoid thwarting the recovery of the currently depressed housing industry. Finally, the inflation rate should show some improvement in coming months, despite the drought's impact on food prices. All of these considerations favor a more accommodative policy stance.

On balance, our view continues to be that rates will work downward between now and year-end, but the decreases are likely to be gradual and grudging--definitely nothing to shout about.

William C. Melton

Irving Trust

Market Yields

	8/15/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(noon)		
Short-term loans to substantial depositors with highest credit rating	11.00	11.00%	12.00%
Effective since	7/24/80		
Discount Rate at Federal Reserve Bank	10.00	10.00	10.50
Federal Funds	9.00	9.13	11.00
Repurchase Agreements	8.38	8.88	10.15
U.S. Treasury Issues			
Bills			
3 months	8.54	8.70	9.90
6 months	8.96	9.13	10.10
1 year	8.99	9.30	10.02
Coupons			
2 years	10.08	9.65	9.48
4 years	10.14	9.98	9.05
7 years	10.63	10.50	8.96
10 years	10.89	10.75	9.01
Long Bond	10.88	10.65	8.94
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.45	9.15	10.80
3 months	9.60	9.30	10.82
6 months	10.00	9.50	10.95
1 year	10.25	10.00	10.50
Banker's Acceptances			
1 month	9.30	9.15	10.77
3 months	9.60	9.25	10.88
6 months	10.00	9.55	11.00
Eurodollar Deposits			
1 month	9.50	9.63	11.31
2 months	10.00	9.88	11.44
3 months	10.38	10.19	11.44
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.88	7.00	10.40
1 month	9.13	8.63	10.50
3 months	9.00	8.75	10.16
Bank Holding Companies			
1 month	9.00	8.63	10.55
Dealer Placed: 3 months	9.13	8.63	10.50
New AA Corporate Utility Bond	12.75	12.50	9.60
Tax Exempt			
6 month Project Notes	4.60	4.35	4.95
1 year AAA Bond	5.10	5.00	N/A
5 year AAA Bond	5.45	5.40	N/A
20 year AAA Bond	7.80	7.95	5.80

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Financial Markets

Irving Trust

Irving Trust Company
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**Economic Research &
Planning Division**

Friday Aug. 22, 1980

The week was tense, to put it mildly, with market rates uniformly higher, a reflection of the record $8.9 billion increase in M1B announced last Friday. Many market participants expected that a large portion of the increase would be reversed this week and next, and their apprehensiveness could be seen in the nervous quality of trading. Also contributing to the malaise was the fact that the generally small and technical nature of Federal Reserve open market operations during most of the statement week ended Wednesday left many participants much less confident than usual about where Federal funds "ought" to trade.

The already muddy waters were churned further on Thursday, when shortly before noon, with funds trading at 9 7/8%, the Fed entered the market to arrange five-day reverse repurchase agreements for the account of a foreign customer. The move hit the market like a bolt out of the blue, since the Fed rarely arranges such transactions in the market. The funds rate had been rising gradually over several days, and many market participants were hoping for some overt move by the Fed to counter the firmness; what they got instead was, as one trader said, "enemy fire." As a result, rates backed up immediately, with 90-day Treasury bills jumping about 40 basis points, and the long bond dropping over a point. Later, some of the rate increases were pared back as the market recovered its composure somewhat.

It is certainly true that the unusual transaction indicated that the Fed did not wish to add reserves by executing the order internally. However, it is essential to put some perspective behind the operation. Assuming that the Fed's reserves projections--like our own--pointed to an approximate reserve balance for the statement week starting Thursday, no open market operations were called for. Most likely the order stemmed from the desire of a foreign central bank (probably the Bundesbank) to acquire dollars for use in supporting its own currency, and it could obviously have been executed internally. To do so, the Fed would have offset the order against other temporary investment orders of foreign customers. This would have reduced the net volume of foreign orders executed with the Fed, thus producing greater reserve availability. But then, other things being equal, the Fed would have had to counter the increased availability—most likely through its own reverse RPs. Considering the impact that the customer order had on the market, psychological devastation would have followed system reverse RPs. Instead, it appears that the Fed did its best to demonstrate to the market that the transaction--though unusual--was merely a technical adjustment with no policy significance. Apparently, the market is coming around to the same view, for when the Fed arranged a similar transaction on Friday, reaction was minimal.

If this interpretation is accurate, then the Fed still has given no sign of firming its policy stance in the aftermath of last week's leap in the money supply. Most likely, at this stage the Fed—like everybody else—is waiting to see whether the rise washes out in coming weeks.

William C. Melton

Irving Trust

Market Yields

	8/22/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(Noon)		
Short-term loans to substantial depositors with highest credit rating	11.25%	11.00%	12.00%
Effective since	8/22/80		
Discount Rate at Federal Reserve Bank	10.00	10.00	10.50
Federal Funds	10.13	9.00	11.01
Repurchase Agreements	9.50	8.38	10.35
U.S. Treasury Issues			
Bills			
3 months	10.02	8.54	10.00
6 months	10.70	8.96	10.25
1 year	11.02	8.99	10.24
Coupons			
2 years	11.10	10.08	9.74
4 years	11.25	10.14	9.20
7 years	11.30	10.63	9.18
10 years	11.26	10.89	9.15
Long Bond	11.21	10.88	9.05
Negotiable Certificates of Deposit-Secondary Market			
1 month	10.30	9.45	10.82
3 months	10.75	9.60	11.09
6 months	11.00	10.00	11.25
1 year	11.50	10.25	11.13
Banker's Acceptances			
1 month	10.20	9.30	11.00
3 months	10.50	9.60	11.20
6 months	10.90	10.00	11.47
Eurodollar Deposits			
1 month	10.38	9.50	11.56
2 months	10.75	10.00	11.88
3 months	11.13	10.38	12.00
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.64	8.88	10.50
1 month	9.95	9.13	10.55
3 months	9.99	9.00	10.13
Bank Holding Companies			
1 month	9.45	9.00	10.55
Dealer Placed:			
3 months	10.25	9.13	10.70
New AA Corporate Utility Bond	12.75	12.75	9.75
Tax Exempt			
6 month Project Notes	6.40	4.60	5.20
1 year AAA Bond	5.90	5.10	N/A
5 year AAA Bond	6.20	5.45	N/A
20 year AAA Bond	8.20	7.80	5.90

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Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday Aug. 29, 1980

On July 9, the FOMC made a significant amplification of the directive issued to the manager of the Open Market Desk: "In assessing the behavior of M-1A and M-1B, it was also understood that the rate of growth of M2 would be taken into account." Since the FOMC recognized that a disproportionate amount of the recent strength in M2 was attributable to growth in the shares of money market mutual funds, this increased their importance.

This change of emphasis potentially could be of major importance to the future conduct of monetary policy. To see why, it is instructive to recall how the controversy over redefinitions of the monetary aggregates arose. Early in the 1970s, the Federal Reserve began to embrace monetary-aggregates targeting; and by the middle of the decade, numerical money growth objectives were firmly entrenched in the policy process. Unfortunately, at about the same time, the forecasting performance of the key statistical money demand relationship began a steady deterioration, racking up a massive cumulative overprediction. This was the "missing money" that spurred interest in redefining the money aggregates.

Thus the point of departure for the redefinitions was the need to find a money measure that would preserve the stability displayed by the money demand relationship prior to mid-1974. Unfortunately, as the staff of the Federal Reserve Board admitted earlier this year, the new narrow, or transactions-oriented, aggregates do little to solve the problem. The result is continuing instability in the statistical money demand relationship and thus increased uncertainty in the monetary targeting process. Chairman Volcker gave dramatic evidence of this fact when, in his July congressional testimony, he indicated the FOMC's willingness to tolerate a wide range of M1B growth rates in the second half of this year.

What accounts for the instability? A considerable amount of statistical and anecdotal evidence suggests that much of the "missing money" is in overnight RPs and money fund shares. Both of these instruments enable interest to be paid on transactions balances. The money funds are especially important, having grown from zero in early 1974 to over $80 billion recently. And most important, addition of overnight RPs and a portion of money fund shares to M1B produces an aggregate that makes the estimated money demand relationship track better.

So the FOMC may be doing well to assign more weight to M2. But the above analysis implies that money growth has been considerably stronger than is generally realized. At a minimum, the strong growth has unpleasant implications for the long-run pace of inflation and for the Fed's future policy stance.

William C. Melton

Irving Trust

Market Yields

	8/29/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(Noon)		
Short-term loans to substantial depositors with highest credit rating	11.50%	11.25%	12.25%
Effective since	8/27/80		
Discount Rate at Federal Reserve Bank	10.00	10.00	10.50
Federal Funds	11.00	10.13	11.16
Repurchase Agreements	10.75	9.50	10.25
U.S. Treasury Issues			
Bills			
3 months	10.36	10.02	9.75
6 months	10.74	10.70	10.30
1 year	10.50	11.02	10.31
Coupons			
2 years	11.65	11.10	9.84
4 years	11.80	11.25	9.35
7 years	11.90	11.30	9.22
10 years	11.90	11.26	9.19
Long Bond	11.50	11.21	9.08
Negotiable Certificates of Deposit-Secondary Market			
1 month	11.05	10.30	11.10
3 months	11.60	10.75	11.35
6 months	12.00	11.00	11.55
1 year	12.20	11.50	11.10
Banker's Acceptances			
1 month	11.05	10.20	11.25
3 months	11.45	10.50	11.46
6 months	11.60	10.90	11.69
Eurodollar Deposits			
1 month	11.25	10.38	11.75
2 months	11.50	10.75	12.06
3 months	12.25	11.13	12.13
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.75	9.64	10.63
1 month	10.63	9.95	10.88
3 months	10.50	9.99	10.25
Bank Holding Companies			
1 month	10.25	9.45	10.80
Dealer Placed:			
3 months	10.50	10.25	11.00
New AA Corporate Utility Bond	13.13	12.75	9.80
Tax Exempt			
6 month Project Notes	6.60	6.40	5.30
1 year AAA Bond	5.75	5.90	NA
5 year AAA Bond	6.30	6.20	NA
20 year AAA Bond	8.20	8.20	6.00

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Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday Sept. 5, 1980

Rates moved lower this week, as the market regained some of the composure it lost earlier in the face of rapid money growth and uncertainty over Federal Reserve policy. Gains were tempered, however, by Friday's largely unfavorable (for the market) economic news and a seasonal--but nonetheless unsettling--operation by the Fed to drain reserves temporarily from the banking system when funds were trading at 10 1/8%.

Though the recent heavy supply pressure on the long-term markets abated--as always--over the Labor Day weekend, there remain abundant signs of continued strong credit demands in this area. The Treasury's large deficit has necessitated financing projected at about $27 billion this quarter (compared to $9 billion in the same quarter last year) and about $25 billion in the fourth quarter (about the same as last year). The corporate calendar has dropped off, largely due to the unsettled condition of the market; but with about $3 billion of new issues slated for this month, any relief is only relative to the awesome pace of the last four months. Moreover, should market conditions improve, the calendar could quickly swell. Finally, the municipal 30-day visible supply rose to over $3 billion this week, marking a record for 1980. We expect much of the pressure of new issues in the corporate and municipal sectors to abate by the end of this year, thus assisting in a modest reduction of long-term rates. Near term, however, retail customers appear to have little incentive to rush to invest, and a sustained rally is unlikely.

As usual, much depends on the Fed. Contrary to widespread belief, the Fed probably did not tighten its policy stance after the early-August surge in the money stock. A tighter stance would imply a reduced provision of nonborrowed reserves relative to the existing target path, thus forcing banks to borrow from the Fed's discount window and lifting the Fed funds rate in the process. However, there is little in the recent data for borrowed reserves to suggest that such has occurred. Instead, credit for the sharp rise of rates must be laid to the market the Fed was essentially accommodating the increased required reserves, thus limiting any need for borrowing. From this viewpoint, it is not surprising that rates should have eased off this week. Our best guess at this stage is that the Fed's projections for money growth during September pointed to much slower growth than in August. If so, then it would have made little sense to overreact to what was essentially a one-week hop in the money numbers.

In sum, then, the Fed's policy stance appears unchanged, with little prospect of being relaxed or tightened at the September 16 FOMC meeting. This probably means that rates will fall modestly between now and year-end, with most of the drop postponed for a few weeks.

William C. Melton

Irving Trust

Market Yields

	9/5/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(Noon)		
Short-term loans to substantial depositors with highest credit rating	11.50%	11.50%	12.75%
Effective since	8/27/80		
Discount Rate at Federal Reserve Bank	10.00	10.00	10.50
Federal Funds	10.25	11.00	11.38
Repurchase Agreements	9.50	10.75	11.00
U.S. Treasury Issues			
Bills			
3 months	9.68	10.36	10.90
6 months	9.90	10.74	11.10
1 year	9.86	10.50	10.95
Coupons			
2 years	10.78	11.65	10.19
4 years	11.02	11.80	9.47
7 years	11.16	11.90	9.45
10 years	11.17	11.90	9.38
Long Bond	11.00	11.50	9.19
Negotiable Certificates of Deposit-Secondary Market			
1 month	10.30	11.05	11.75
3 months	10.75	11.60	11.95
6 months	11.25	12.00	12.15
1 year	11.50	12.20	11.75
Banker's Acceptances			
1 month	10.20	11.05	11.75
3 months	10.55	11.45	12.10
6 months	10.75	11.60	12.31
Eurodollar Deposits			
1 month	10.75	11.25	12.25
2 months	11.25	11.50	12.50
3 months	11.50	12.25	12.69
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.00	10.75	11.25
1 month	9.88	10.63	11.25
3 months	9.88	10.50	10.50
Bank Holding Companies			
1 month	9.63	10.25	11.20
Dealer Placed:			
3 months	10.13	10.50	11.38
New AA Corporate Utility Bond	12.88	13.13	9.85
Tax Exempt			
6 month Project Notes	5.80	6.60	5.70
1 year AAA Bond	5.60	5.75	N/A
5 year AAA Bond	6.00	6.30	N/A
20 year AAA Bond	8.20	8.20	6.15

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# Financial Markets

Irving Trust

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**Economic Research &
Planning Division**

Friday Sept. 12, 1980

Rates moved up this week, reversing the modest rally of the previous week. Market participants were discouraged by the strength reported in various economic indicators as well as by the firmness of the Federal funds rate on Thursday and Friday. As a result, rates generally backed up to their levels of approximately two weeks ago.

It is now clear that the Fed is sticking to its long-run growth path for non-borrowed reserves and thus is forcing banks to borrow through the discount window to cover the increased reserve need caused by the recent rapid rate of deposit growth. Apparently, the Fed waited to see whether the early August surge in the money stock--which raised required reserves in the statement week ended August 20--would wash out in the following week and, in the meantime, accommodated the reserve need. However, when only part of the increase was subsequently reversed, the Fed forced banks to borrow, thus putting pressure on interest rates. The following figures (in millions of dollars) tell the story:

Statement Week Ending	Excess Reserves	Borrowed Reserves	Net Borrowed Reserves
August 13	376	390	41
August 20	393	344	-49
August 27	89	700	611
September 3	654	1348	694

Indications are that borrowing in the statement week ended Wednesday, September 10, was also substantial, though not so high as in the previous week. With the discount rate at 10%, this means that, barring large declines in the money stock, Federal funds should trade in the 10%-plus range for at least the next couple of weeks, as they have since late August.

Looking further ahead, the prospects seem good that growth of the narrower monetary aggregates will slow from the torrid August pace, and this should lead to some easing tendency in short-term and long-term rates. However, one should not exaggerate the magnitude of the likely rally. It seems clear that the economy is in the process of bottoming out and should start to recover in the fourth quarter. Meanwhile, the dollar remains subject to pressure in the foreign exchange markets, and inflation is continuing at an unacceptably rapid pace. In this setting, it is highly improbable that the FOMC, at its meeting on Tuesday, September 16, will vote for any change in its policy stance. Instead, as Chairman Volcker has emphasized so many times, the Fed will remain resolute in its long-haul strategy of slowing the rate of monetary growth and thus the rate of inflation. In the near term, this strategy is likely to slow the pace of the recovery—especially in the housing sector. Nevertheless, to the Fed the price seems worth paying. That should restrict the magnitude of reductions on interest rates in the months to come, while providing benefits later on.

William C. Melton

Irving Trust

Market Yields

	9/12/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(Noon)		
Short-term loans to substantial depositors with highest credit rating	12.25%	11.50%	13.00%
Effective since	9/12/80		
Discount Rate at Federal Reserve Bank	10.00	10.00	10.50
Federal Funds	10.75	10.25	11.38
Repurchase Agreements	10.00	9.50	11.00
U.S. Treasury Issues			
Bills			
3 months	10.60	9.68	10.85
6 months	11.10	9.90	11.00
1 year	11.30	9.86	10.90
Coupons			
2 years	11.42	10.78	10.10
4 years	11.40	11.02	9.40
7 years	11.45	11.16	9.35
10 years	11.35	11.17	9.32
Long Bond	11.20	11.00	9.14
Negotiable Certificates of Deposit-Secondary Market			
1 month	10.75	10.30	11.95
3 months	11.15	10.75	12.10
6 months	11.50	11.25	12.10
1 year	11.75	11.50	12.12
Banker's Acceptances			
1 month	10.70	10.20	11.95
3 months	11.20	10.55	12.10
6 months	11.60	10.75	12.25
Eurodollar Deposits			
1 month	11.00	10.75	12.19
2 months	11.44	11.25	12.63
3 months	11.75	11.50	12.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.50	9.00	11.50
1 month	10.63	9.88	11.63
3 months	10.50	9.88	10.50
Bank Holding Companies			
1 month	10.50	9.63	11.65
Dealer Placed:			
3 months	10.75	10.13	11.70
New AA Corporate Utility Bond	13.00	12.88	10.05
Tax Exempt			
6 month Project Notes	5.90	5.80	5.55
1 year AAA Bond	6.10	5.60	N/A
5 year AAA Bond	6.30	6.00	N/A
20 year AAA Bond	8.20	8.20	6.10

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Financial Markets

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**Economic Research &
Planning Division**

Friday
(Noon)

Sept. 19, 1980

On the whole, economic reports released this week were consistent with recent data pointing to a resurgence of economic activity. Since inflation remains troublesome, however, many market participants do not view with favor the increasing likelihood that the economy is entering a recovery.

Yet one should recall that recoveries are not all bad for the markets. For example, the brisk improvement of corporate cash flow that takes place in the early stage of a recovery lessens the pressure on corporate treasurers to raise funds in the money and capital markets. This would be welcome relief, especially for the corporate bond market, which has been laboring under record-breaking volumes of new issues in recent months.

But the implications of the recovery for the Fed's policy stance were the primary focus of market attention. As we have noted previously, there was little to suggest that the FOMC meeting on Tuesday would result in any meaningful policy change; and so far, events seem to have borne out that judgment. In the last few days, the Fed has entered the market to arrange a number of technical transactions designed to preserve overall reserve balance without giving evidence of any move either to a more restrictive or to an easier degree of reserve availability.

To many market participants, however, the scarcity of recent transactions by the Fed for its own account has been troublesome, for it has prevented them from getting a fix on the Fed's so-called intervention range, thus increasing their uncertainty. But one person at least remains unconcerned about this state of affairs: Chairman Volcker, in a speech this week to the Dealer Banks Association, emphasized--once again--that under the new reserves-oriented operating procedures the Federal funds rate is for the most part "coincidental." That should give pause to market participants who gauge the Fed's policy stance by reference to a notional intervention range.

Another recent development that has caused a bit of confusion is the strong growth during August of effective reserves--i.e., total member bank reserves adjusted for reserve requirements. Some commentators have interpreted the August expansion as presaging a later surge in money growth. One problem with this view is that many deposits that are not included in the narrow money stock are nevertheless reservable. During August, for example, large time deposits expanded over $6 billion, increasing reserves by over $300 million (our estimate). In targeting the narrow aggregates, the Fed will routinely accommodate the extra reserve need created by CD growth. In addition, during the August period banks were forced to increase their borrowing at the discount window when the Fed refused to provide sufficient nonborrowed reserves to cover the reserve need created by the August money surge. Since these two factors explain much of the increase in effective reserves, the Fed appears to have done nothing to encourage a future money surge.

William C. Melton

Irving Trust

Market Yields

	9/19/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(noon)		
Short-term loans to substantial depositors with highest credit rating	12.50%	12.25%	13.25%
Effective since	9/19/80		
Discount Rate at Federal Reserve Bank	10.00	10.00	11.00
Federal Funds	10.75	10.75	11.50
Repurchase Agreements	10.00	10.00	11.05
U.S. Treasury Issues			
Bills			
3 months	10.01	10.60	10.60
6 months	10.35	11.10	10.90
1 year	10.40	11.30	10.80
Coupons			
2 years	11.65	11.42	9.98
4 years	11.75	11.40	9.52
7 years	11.76	11.45	9.45
10 years	11.35	11.35	9.27
Long Bond	11.30	11.20	9.11
Negotiable Certificates of Deposit-Secondary Market			
1 month	11.00	10.75	12.00
3 months	11.10	11.15	12.05
6 months	11.60	11.50	12.20
1 year	11.70	11.75	12.25
Banker's Acceptances			
1 month	10.75	10.70	11.81
3 months	11.10	11.20	12.05
6 months	11.40	11.60	12.20
Eurodollar Deposits			
1 month	11.25	11.00	12.25
2 months	11.63	11.44	12.56
3 months	11.88	11.75	12.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	6.00	10.50	11.25
1 month	10.50	10.63	11.65
3 months	10.63	10.50	11.00
Bank Holding Companies			
1 month	10.63	10.50	11.65
Dealer Placed:			
3 months	10.88	10.75	11.80
New AA Corporate Utility Bond	13.13	13.00	10.10
Tax Exempt			
6 month Project Notes	5.50	5.90	5.50
1 year AAA Bond	5.90	6.10	N.A.
5 year AAA Bond	6.10	6.30	N.A.
20 year AAA Bond	8.00	8.20	6.15

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Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(noon)

Sept. 26, 1980

The increase of the Federal Reserve discount rate to 11% from 10% on Thursday afternoon dispelled much of the uncertainty that had characterized the market's perception of Fed policy. For the most part, trading had been thin and nervous, showing high volatility and little direction. In part, of course, the hesitation and lack of conviction reflected market participants' inability to divine the implications of the Iraqi-Iranian conflict for the future of oil supplies, price pressures, etc. Lacking any clear interpretation, many participants resolutely kept to the sidelines.

The discount rate increase underlines the Fed's commitment to restraining the pace of monetary growth. Last week's strong money stock data put M1B slightly above the top of its 4%-6 1/2% target range, and the Fed--reflecting the unexpectedly strong economic indicators recently--undoubtedly revised upward its GNP projections for the near term. Since these projections are important input to the Fed's money stock forecasting procedure, the revision must have confronted policymakers with a reduced likelihood of returning the money stock to its target range without higher interest rates, at least for a while.

Our feeling is that the Fed has emphasized its determination to return the money stock back to path by temporarily depressing the reserves growth path. Hence, for the immediate future the Fed funds rate can be expected to remain in the 12% area. Over a longer horizon, we continue to expect rates to ease off--a prospect that may easily be obscured temporarily as the Fed moves to counter the recent rapid money growth.

Almost every day for two weeks, the Fed has passed customer RPs through to the market. In part, these actions have been a predictable response to movements of reserve operating factors. But the volume of temporary investment orders received by the Fed from its foreign customers has been extremely high lately. On a weekly average basis, such orders normally are in the $2-2 1/2 billion range. Lately they have been in excess of $3 billion. Our best guess is that this development reflects in large part the tense Middle East situation, with some foreign governmental organizations desiring to seek a haven in short-term dollar investments. To the extent that the inflow of such orders swells, the Fed will be tempted to pass them through to the market more frequently and in greater size than normally.

William C. Melton

Irving Trust

Market Yields

	9/26/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(Noon)		
Short-term loans to substantial depositors with highest credit rating	13.00%	12.50%	13.50%
Effective since	9/26/80		
Discount Rate at Federal Reserve Bank	11.00	10.00	11.00
Federal Funds	11.88	10.75	11.88
Repurchase Agreements	11.50	10.00	11.15
U.S. Treasury Issues			
Bills			
3 months	11.25	10.01	10.70
6 months	12.25	10.35	10.84
1 year	12.50	10.40	10.88
Coupons			
2 years	12.47	11.65	10.15
4 years	12.30	11.75	9.64
7 years	12.10	11.76	9.48
10 years	12.02	11.35	9.44
Long Bond	11.85	11.30	9.26
Negotiable Certificates of Deposit-Secondary Market			
1 month	11.80	11.00	11.80
3 months	12.10	11.10	12.00
6 months	12.65	11.60	12.25
1 year	12.75	11.70	11.75
Banker's Acceptances			
1 month	12.00	10.75	11.90
3 months	12.30	11.10	12.20
6 months	12.70	11.40	12.40
Eurodollar Deposits			
1 month	12.13	11.25	12.25
2 months	12.44	11.63	12.50
3 months	13.06	11.88	12.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	11.75	6.00	11.00
1 month	11.50	10.50	11.38
3 months	10.75	10.63	11.00
Bank Holding Companies			
1 month	11.25	10.63	11.60
Dealer Placed:			
3 months	11.88	10.88	11.50
New AA Corporate Utility Bond	13.75	13.13	10.25
Tax Exempt			
6 month Project Notes	5.45	5.50	5.30
1 year AAA Bond	6.00	5.90	NA
5 year AAA Bond	6.30	6.10	NA
20 year AAA Bond	8.60	8.00	6.15

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Irving Trust

Financial Markets

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

Oct. 3, 1980

The Federal funds rate was sharply higher this week, reflecting market perception of the full extent to which the Federal Reserve has tightened its policy stance. Also contributing to the firmness in the funds market early in the week were the usual activities connected with weekend Eurodollar arbitrage and end-of-quarter window dressing, but the fundamental cause of upward rate pressure was the tightness of bank reserve positions.

The tightness had two principal sources. First, and most fundamental, the Fed's nonborrowed reserves path now appears to call for net borrowed reserves in the neighborhood of $1.5 billion. That volume of borrowing is sufficient to create a substantial spread of the funds rate over the discount rate--it is roughly consistent with the approximately 200 basis point spread we have observed this week. The second source was more technical in nature. Treasury balances rose sharply during the statement week ended Wednesday, and the rise was almost certainly in excess of Fed projections. Since an increase in Treasury balances drains reserves from banks, the open market desk entered the market to return the reserves to the banking system via RPs. The operations almost certainly were a technical response to an error in the Fed's reserve projections, and thus had no policy significance.

Some market participants, however, did not view the operation in this light, especially those who focused on the fact that from Monday through Wednesday the RPs were executed at progressively lower rates. When funds traded above 13% during Thursday, that illusion was dispelled. On Friday, the Fed arranged RPs at 11:00--unusually early--when funds were trading at 13 3/4%. The move was probably designed to reassure the market as to the extent of firmness desired.

In the weeks ahead, the Fed will be entering the market frequently to provide a seasonal addition of reserves, which should include some outright bill or note purchases. This development will be viewed favorably in some market quarters, but its fundamentally technical nature should be kept in mind. It will not signal an easing of the Fed's policy stance. Any change in policy will have to come in response to more moderate expansion of the monetary aggregates.

President Carter's criticism on Thursday of the Fed's "purely monetarist" approach to policy was predictable. Its likely influence on the Fed's willingness to stay the course in the long-haul effort to restrain monetary growth is perhaps best inferred from the fact that the Fed has moved aggressively to slow money growth little more than a month before the election. Were politics a dominant factor in Fed deliberations, an accommodative stance could easily have been adopted until November 5. The fact that it wasn't is a sure indication of the Fed's awareness that its credibility is on the line.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	10/3/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(Noon)		
Short-term loans to substantial depositors with highest credit rating	13.50%	13.00%	13.50%
Effective since	10/1/80		
Discount Rate at Federal Reserve Bank	11.00	11.00	11.00
Federal Funds	13.50	11.88	11.63
Repurchase Agreements	12.50	11.50	11.00
U.S. Treasury Issues			
Bills			
3 months	11.80	11.25	11.05
6 months	12.10	12.25	11.30
1 year	12.15	12.50	11.25
Coupons			
2 years	11.72	12.47	10.47
4 years	11.65	12.30	9.83
7 years	11.58	12.10	9.65
10 years	11.52	12.02	9.59
Long Bond	11.45	11.85	9.34
Negotiable Certificates of Deposit-Secondary Market			
1 month	12.80	11.80	12.35
3 months	12.90	12.10	12.55
6 months	13.00	12.65	12.80
1 year	12.80	12.75	12.60
Banker's Acceptances			
1 month	12.75	12.00	12.00
3 months	12.90	12.30	12.35
6 months	12.95	12.70	12.75
Eurodollar Deposits			
1 month	13.25	12.13	12.56
2 months	13.44	12.44	12.94
3 months	13.50	13.06	13.25
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	11.00	11.75	11.00
1 month	12.25	11.50	11.65
3 months	11.75	10.75	11.00
Bank Holding Companies			
1 month	12.75	11.25	11.75
Dealer Placed:			
3 months	12.63	11.88	11.88
New AA Corporate Utility Bond	13.50	13.75	10.40
Tax Exempt			
6 month Project Notes	5.40	5.45	5.25
1 year AAA Bond	6.00	6.00	NA
5 year AAA Bond	6.20	6.30	NA
20 year AAA Bond	8.60	8.60	6.20

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Financial Markets

Irving Trust

Irving Trust Company
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Economic Research &
Planning Division

Friday
(Noon)

Oct. 10, 1980

All in all, it was a sloppy week, with little convincing sense of direction. Following the weekend, the funds market was extremely soft, despite repeated Federal Reserve attempts to drain reserves. The root of the problem was the RPs that the Fed arranged on the previous Friday, when the funds rate briefly seemed likely to hit 14% (the top of the Fed's presumed 8%-14% range for the weekly average funds rate). As a result of the oversupply, funds began to soften late Friday, and the problem was probably further compounded after the weekend as Fed projection errors for various operating factors began to swell reserve availability. The Fed never did manage to regain control of the situation; and on Wednesday night, funds were bid for at a mere 1/4%.

A firming tendency was evident right from the start of the new statement week on Thursday, and funds generally traded in the 12 1/2% to 12 3/4% range prior to the weekend. That is roughly consistent with our estimated net borrowed reserves target for the current statement week on the order of $1.2 billion or so. However, some of the upward pressure undoubtedly reflected reserve positioning problems created for banks by the three-day weekend.

While the funds market was under pressure, other markets took on a somewhat improved tone. This reflected the emergence of some retail buying interest and helped lower rates on most money and capital market instruments. Underlying the reawakening of investor demand was the spreading view that the sharply higher levels of interest rates--short-term rates up about 5% since June, bond rates up about 2%-2 1/2%--could well cause the recovery to stall. Also, some market participants apparently thought that President Carter's repeated criticism of high interest rates--lately redirected at the banks instead of the Fed--might contribute to some near-term easing of rates.

At present, however, these are rather fragile elements from which to build a rally. It appears that some participants have exaggerated the likely impact of presidential criticism on the Fed, particularly in view of the Fed's announced intention to lower the monetary aggregates growth targets by 1/2% in 1981. In the near term, the funds rate appears likely to stay in the upper part of the 12%-13% area--and that could be bad news for rates on some money-market instruments, especially Treasury bills, which appear to have been priced recently to reflect anticipations of considerably lower funds costs (on Friday RP rates were about a full percentage point above bill rates).

While we continue to look for drops in rates by year-end, the immediate outlook is for nervous stability or possibly some modest backups of interest rates.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	10/10/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(Noon)		
Short-term loans to substantial depositors			
with highest credit rating	13.50%	13.50%	14.50%
Effective since	10/1/80		
Discount Rate at Federal Reserve Bank	11.00	11.00	12.00
Federal Funds	12.88	13.50	12.88
Repurchase Agreements	12.25	12.50	12.00
U.S. Treasury Issues			
Bills			
3 months	11.55	11.80	11.80
6 months	11.88	12.10	12.20
1 year	11.95	12.15	12.40
Coupons			
2 years	11.60	11.72	11.25
4 years	11.55	11.65	10.55
7 years	11.47	11.58	10.35
10 years	11.40	11.52	10.18
Long Bond	11.20	11.45	9.80
Negotiable Certificates of Deposit-Secondary Market			
1 month	12.40	12.80	13.50
3 months	12.50	12.90	13.70
6 months	12.50	13.00	13.90
1 year	12.50	12.80	13.25
Banker's Acceptances			
1 month	12.50	12.75	13.50
3 months	12.50	12.90	13.90
6 months	12.55	12.95	14.30
Eurodollar Deposits			
1 month	12.88	13.25	14.63
2 months	12.88	13.44	14.81
3 months	12.94	13.50	15.00
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	12.00	11.00	12.75
1 month	12.00	12.25	13.00
3 months	11.25	11.75	12.50
Bank Holding Companies			
1 month	12.50	12.75	13.00
Dealer Placed:			
3 months	12.25	12.63	13.50
New AA Corporate Utility Bond	13.25	13.50	11.15
Tax Exempt			
6 month Project Notes	5.20	5.40	5.90
1 year AAA Bond	6.00	6.00	NA
5 year AAA Bond	6.30	6.20	NA
20 year AAA Bond	8.20	8.60	6.75

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Financial Markets

Irving Trust

Irving Trust Company
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**Economic Research &
Planning Division**

Friday
(Noon)

Oct. 17, 1980

Most market rates were unchanged to modestly higher, on balance, during the holiday-shortened week, as some reversals of earlier rate reductions set in late in the week. Substantial differences of opinion continued to exist among market participants with respect to the likely near-term movement of interest rates, adding to the generally nervous character of the markets.

Rates in the Treasury sector fell slightly Wednesday afternoon, primarily reflecting the surprise of some participants at the Federal Reserve's move that day to purchase Treasury bills for its own account. Unfortunately, an outright System purchase should not have come as a surprise (it was anticipated in this letter two weeks ago), as it was required primarily to counter the seasonal reserve-draining impact of increases in currency in circulation that occur about this time of year. The purchase could have been done a week earlier without complicating open market operations; but by Wednesday, there was little choice. With a large volume of RPs having been arranged during the statement week ended Wednesday, and with a modest reserve-adding week about to commence on Thursday, the Fed faced the prospect of arranging a huge amount of RPs in coming weeks if it did not supply reserves via an outright purchase. The Fed took the reasonable course. Even so, the size of the transaction was apparently considerably less than called for by the seasonal need, and thus the Fed--as demonstrated by Thursday's four-day RPs--is not yet out of the RP business. Whatever the Fed's motives for this approach, the market can look forward to additional outright purchases sometime in the next couple of weeks. Once again, however, the operation will be of a technical nature and will not necessarily indicate a change in the Fed's policy stance.

Our view is that the current target for net borrowed reserves is about $1.2 billion--a level consistent with funds trading at about 12 1/2% or a little higher. Even if the money stock should register substantial declines in the next few weeks, it would be hard to get the funds rate much under 12%. That emphasizes a problem highlighted in last week's letter: Treasury bill rates currently are well below financing rates, reflecting the expectation of at least some market participants that the funds rate will decline--fast! However, this expectation is likely to be frustrated, and thus the bill sector seems especially vulnerable to a continuation of the interest rate backups, which set in late this week. Other market instruments, carrying substantially higher rates than bills of comparable maturity, are not so exposed.

The FOMC meets on Tuesday, October 21. Since M-1B is just under the top of its target range, while no very palpable signs of a business slowdown have yet appeared, the prospect is that the committee will vote to leave monetary policy substantially unchanged. We continue to expect rate declines by year-end, however.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	10/17/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(Noon)		
Short-term loans to substantial depositors with highest credit rating	13.50%	13.50%	14.50%
Effective since	10/1/80		
Discount Rate at Federal Reserve Bank	11.00	11.00	12.00
Federal Funds	12.63	12.88	13.75
Repurchase Agreements	12.30	12.25	12.25
U.S. Treasury Issues			
Bills			
3 months	11.55	11.55	12.75
6 months	12.13	11.88	13.25
1 year	12.10	11.95	12.60
Coupons			
2 years	11.86	11.60	12.10
4 years	11.69	11.55	11.15
7 years	11.55	11.47	10.70
10 years	11.57	11.40	10.60
Long Bond	11.38	11.20	10.00
Negotiable Certificates of Deposit-Secondary Market			
1 month	12.60	12.40	13.75
3 months	12.70	12.50	14.15
6 months	12.70	12.50	14.50
1 year	12.70	12.50	13.75
Banker's Acceptances			
1 month	12.60	12.50	13.75
3 months	12.40	12.50	14.50
6 months	12.00	12.55	14.80
Eurodollar Deposits			
1 month	13.13	12.88	14.00
2 months	13.31	12.88	14.63
3 months	13.38	12.94	14.88
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.00	12.00	12.00
1 month	12.25	12.00	13.25
3 months	11.50	11.25	12.75
Bank Holding Companies			
1 month	12.25	12.50	13.13
Dealer Placed:			
3 months	11.90	12.25	13.38
New AA Corporate Utility Bond	13.50	13.25	11.25
Tax Exempt			
6 month Project Notes	5.25	5.20	5.90
1 year AAA Bond	5.90	6.00	NA
5 year AAA Bond	6.20	6.30	NA
20 year AAA Bond	8.15	8.20	6.95

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Irving Trust

Financial Markets

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

Oct. 24, 1980

The Federal Reserve has been the target of a barrage of criticism in recent months, as market participants have noted that in the wake of the new reserves-oriented operating procedures introduced on October 6, 1979, both interest rates and money stock growth have been more volatile than before.

The rationale for targeting the long-run growth of the money stock is to use the statistical relationship between the rate of growth of money and nominal income to set the rate of money growth necessary for the desired rate of growth of nominal income. The objective of the Fed's gradual lowering of the targeted long-run rate of monetary growth is to reduce the long-run inflation rate without severely disrupting the pace of real activity.

As is well known, the Federal funds rate operating target used in past years made the Fed miss its money growth targets. In theory, this need not have resulted, but in practice the FOMC was very slow in adjusting its funds rate targets and changed them by relatively minuscule amounts when it did act. This slow reaction reflected the delayed and tentative nature of much economic data, together with the cautious approach of the committee members. The introduction of the reserves-oriented operating procedures was a crucial change: With the FOMC focusing on a reserves growth path consistent with the monetary targets, interest rates are then free to adjust quickly in response to movements in money demand. Thus the introduction of the new procedures a year ago raised hopes that the Fed finally would begin to achieve its long-run monetary targets.

Early this month, a conference sponsored by the Federal Reserve Bank of Boston attempted to assess the need to control the monetary aggregates. The participants--drawn from the financial industry as well as academia and the Fed staff--were sharply divided on almost every issue. Some viewed past shifts of the relationship between money and nominal GNP as a justification for abandoning monetary targets. Others belittled the issue. Some questioned the usefulness of such targets on a theoretical level. And some participants fortunately had concrete suggestions for rectifying various problems created by shifts observed in monetary relationships.

In theory, no intermediate monetary target is needed--one should target the things that "really matter," such as inflation and real economic activity. But a key contributor to past policy errors was the slow response of policymakers, and there monetary/reserves targeting can make a major contribution. Moreover, with the reduction of inflation currently a high priority, the Fed's credibility is linked to the achievement of its long-run targets. The Fed's commitment to those targets implies continued volatile interest rates and probably a less robust recovery than normal. The inflation benefits of the strategy will appear only later. However, our view is that although the reform of October 6, 1979, was scarcely a panacea--and significant problems of defining money remain--policymakers seem, on balance, much better prepared than before to cope with their long-run responsibility for assuring price stability, and that should be encouraging.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	10/24/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(Noon)		
Short-term loans to substantial depositors with highest credit rating	14.00%	13.50%	15.00%
Effective since	10/20/80		
Discount Rate at Federal Reserve Bank	11.00	11.00	12.00
Federal Funds	13.25	12.63	15.14
Repurchase Agreements	12.50	12.30	12.75
U.S. Treasury Issues			
Bills			
3 months	12.35	11.55	12.30
6 months	12.70	12.13	12.95
1 year	12.74	12.10	12.50
Coupons			
2 years	12.36	11.86	12.11
4 years	12.25	11.69	11.29
7 years	12.04	11.55	11.03
10 years	11.75	11.57	10.85
Long Bond	11.68	11.38	10.30
Negotiable Certificates of Deposit-Secondary Market			
1 month	13.05	12.60	14.25
3 months	13.20	12.70	14.50
6 months	13.25	12.70	14.50
1 year	12.85	12.70	14.25
Banker's Acceptances			
1 month	12.90	12.60	14.05
3 months	13.15	12.40	14.40
6 months	13.44	12.00	14.70
Eurodollar Deposits			
1 month	13.38	13.13	15.31
2 months	13.81	13.31	15.50
3 months	13.88	13.38	15.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.00	8.00	12.00
1 month	12.50	12.25	13.90
3 months	12.00	11.50	12.88
Bank Holding Companies			
1 month	12.50	12.25	14.00
Dealer Placed:			
3 months	12.25	11.90	14.25
New AA Corporate Utility Bond	13.63	13.50	11.75
Tax Exempt			
6 month Project Notes	5.90	5.25	6.30
1 year AAA Bond	6.00	5.90	NA
5 year AAA Bond	6.50	6.20	NA
20 year AAA Bond	8.00	8.15	6.85

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